
IGM Financial

STRENGTH • FOCUS • GROWTH

**IGM FINANCIAL INC.** is one of Canada's premier financial services companies, with over $100 billion in assets under management. The Company serves the financial needs of Canadians through multiple businesses, each operating distinctly within the advice segment of the financial services market. The Company is committed to building on its record of delivering growth and value to its clients and shareholders. IGM Financial Inc. is a member of the Power Financial Corporation group of companies, and its shares are listed on the Toronto Stock Exchange (IGM).

Investors Group™ Mackenzie INVESTMENTS® Investment Planning Counsel™ FINANCIAL SOLUTIONS FOR LIFE



### Caution Regarding Forward-Looking Statements

This report may contain forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

### Non-GAAP Financial Measures

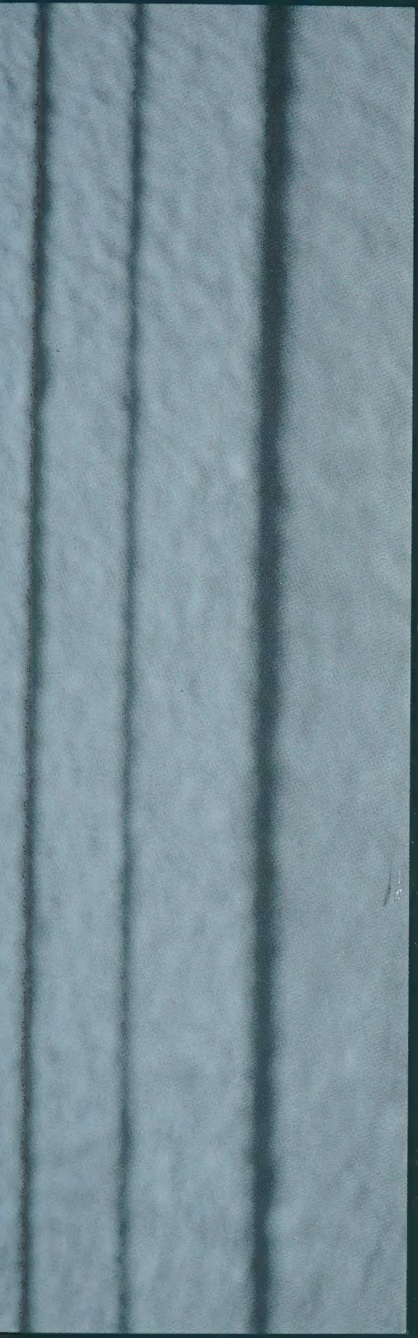
This Annual Report may also contain non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include but are not limited to "Adjusted net income, adjusted diluted earnings per share (EPS) and adjusted return on common equity (ROE)" used to provide management and investors with additional measures to assess earnings performance. As well, "Earnings before interest and taxes (EBIT)" and "Earnings before interest, taxes, depreciation and amortization (EBITDA)" are non-GAAP financial measures used to provide management, investors and investment analysts with additional measures to evaluate and analyze the Company's results.

However, these non-GAAP financial measures do not have a standard meaning and are not directly comparative to similar measures used by other companies and may not be directly comparable to any prescribed GAAP measure. Please refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

Our strength, long-term focus, and ability to create opportunity have established IGM Financial as a leader in the financial services industry. It is from this position of leadership that we look to the future.

## STRONG FOUNDATION

IGM Financial draws continually on our experienced resources and the advantages of scale within our operating companies and those available to us as a member of one of the most successful groups of financial companies in Canada. Key to our strength is our effectiveness across multiple distribution channels and our expertise in manufacturing and delivering quality investment management, products, and services.



## LONG-TERM FOCUS

We are focused on the long-term success of our clients, the Consultants and advisors who serve them, and our shareholders. Our long-term view gives us perspective on the present, a disciplined focus on the details of execution, and confidence in the future.

## EFFECTIVE GROWTH

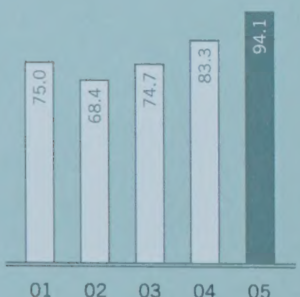
The growth of the financial services industry in Canada is fuelled by the increasing demand for innovative approaches to saving and investment and the need for personalized and informed financial advice. Experience in investment management combined with effective delivery of financial advice provides the solid framework of growth for our Company.

# Financial Highlights

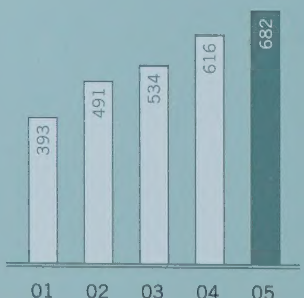
| | 2005 | 2004 | CHANGE |
|---|---|---|---|
| **Net income** *($ millions)* | | | |
| Adjusted[1] | **$ 682.4** | $ 615.6 | 10.9% |
| In accordance with GAAP | **682.4** | 596.4 | 14.4 |
| **Diluted earnings per share** | | | |
| Adjusted[1] | **2.56** | 2.31 | 10.8 |
| In accordance with GAAP | **2.56** | 2.24 | 14.3 |
| **Return on equity** | | | |
| Adjusted[1] | **20.0%** | 19.8% | |
| In accordance with GAAP | **20.0%** | 19.1% | |
| **Dividends per share** | **1.335** | 1.15 | 16.1 |

| *($ millions)* | | | |
|---|---|---|---|
| **Mutual funds** | | | |
| **Investors Group** | | | |
| Sales | **$ 5,488** | $ 4,722 | 16.2% |
| Net sales | **778** | 218 | 257.0 |
| Assets under management | **50,701** | 44,510 | 13.9 |
| **Mackenzie** | | | |
| Sales | **8,075** | 6,786 | 19.0 |
| Net sales | **1,175** | 795 | 47.7 |
| Assets under management | **41,592** | 37,298 | 11.5 |
| **Investment Planning Counsel** | | | |
| Sales | **407** | 259[2] | N/A |
| Net sales | **237** | 161[2] | N/A |
| Assets under management | **1,858** | 1,497 | 24.1 |
| **Combined mutual fund assets under management**[3] | **94,116** | 83,273 | 13.0 |
| **Insurance in force** *(face amount)* | **37,024** | 35,897 | 3.1 |
| **Securities operations assets under administration** | **7,320** | 7,107 | 3.0 |
| **Mortgages serviced** | **6,003** | 6,010 | (0.1) |
| **Employees** | **3,320** | 3,324 | (0.1)% |

**Mutual Fund Assets Under Management**
As at December 31 *($ billions)*

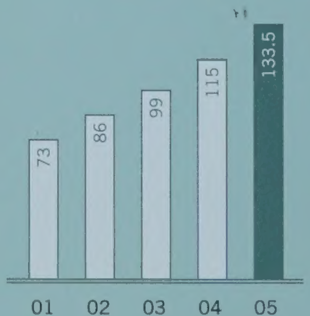



**Net Income**
For the financial year *($ millions)*




2001 excludes goodwill amortization and Mackenzie restructuring costs.
2003 excludes dilution gain, restructuring reversal related to Mackenzie and non-cash income tax charge.
2004 excludes unitholder compensation.

**Dividends per Share**
For the financial year *(cents)*




*(1) Non-GAAP Financial Measures:*
*Refer to p. 23 of the Management's Discussion and Analysis (MD&A) for an explanation of the Company's use of non-GAAP financial measures.*
*(2) From date of acquisition.*
*(3) Adjusted for $35 million in inter-segment assets ($32 million at December 31, 2004).*

# Report to Shareholders

IGM Financial and its operating companies enjoyed continued growth in 2005. Strong financial results were again delivered to shareholders during the year. The Company's two principal businesses – Investors Group Inc. and Mackenzie Financial Corporation – each enhanced their ability to compete, and momentum continued to build in areas such as sales, product breadth, investment management, recruiting, and retention. The Company remains focused on supporting financial planners and investors in achieving their financial goals and works from a position of strength and leadership in continuing to create value for clients, the Consultants and advisors who serve them, and our shareholders.

## FINANCIAL OVERVIEW

Net income for the year ended December 31, 2005 was $682.4 million, compared to adjusted net income of $615.6 million in 2004, an increase of 10.9%. Earnings per share were $2.56, an increase of 10.8% compared to adjusted earnings per share of $2.31 in 2004. Adjusted net income and earnings per share for 2004 excludes a non-recurring expense. Net income in 2004 without adjustment totalled $596.4 million. Earnings per share on this basis were $2.24.

Dividends increased for the 16th consecutive year, rising 18.5 cents to $1.335 per share for the year.

## INDUSTRY PERSPECTIVE

In 2005, sustained positive performance across equity markets delivered significant returns for Canadian investors and contributed to growing investor confidence, which resulted in strong mutual fund flows within the industry. The Investment Funds Institute of Canada (IFIC) reported stronger net sales of long-term funds for 2005 compared to a year ago, and the highest levels since 1998. Net sales of long-term funds for the industry were $25.1 billion for 2005 compared to $16.6 billion in 2004, an increase of over 50%. IFIC reported that as at December 31, 2005, mutual fund assets had increased by 14.6% year-over-year to approximately $570 billion.

## OPERATING HIGHLIGHTS

Growth of the Investors Group Consultant network continued to be strong in 2005. By increasing management and leadership expertise in region offices and expanding its regional office network, Investors Group continued to build its Consultant network and develop a strong and experienced leadership team across the country. Net sales of mutual funds rose significantly from $218 million to $778 million during the period. The Company continued to react effectively to the complex financial needs of its clients by delivering a diverse range of products and services combined with sound, personal financial advice.

Mackenzie maintained a strong focus on delivering quality through all aspects of its operations. This quality is evidenced by the strength of Mackenzie's relationships with financial advisors, its commitment to experienced and talented investment management, and its focused service to advisors and investors. Mackenzie was rewarded in 2005 by strong sales performance and growth in retail and institutional assets under management.

IGM Financial continues to improve the fundamentals of its business approach by providing a strategic focus on multiple distribution channels with a variety of high-quality advice, products, and services. Our scale and investment in our operating companies help us to achieve synergies for investors and grow our business over time. Prudent management of operating costs within the context of sustained growth positions us to respond to opportunities in an increasingly consolidating market environment.

## LEADERSHIP

In May 2005, R. Jeffrey Orr assumed the position of President and Chief Executive Officer of Power Financial Corporation. Succeeding Mr. Orr as Co-Presidents and Chief Executive Officers of IGM Financial Inc. are Murray J. Taylor and Charles R. Sims. Both Mr. Taylor and Mr. Sims continue in their roles as President and Chief Executive Officer of Investors Group Inc. and Mackenzie Financial Corporation, respectively. Mr. Orr continues to be actively involved in the oversight of IGM Financial in his role as Chairman of the Executive Committee of the Board for IGM Financial Inc. Mr. Taylor and Mr. Sims lead an experienced and talented management team that is committed to our clients, our Consultants, our advisor network, and our employees.

## BOARD OF DIRECTORS

At the Company's Annual Meeting in 2005, Alan J. Dilworth retired from the Board of Directors of IGM Financial. Mr. Dilworth has been a director of the Company since 2001 and served on the Audit Committee. We thank him for his outstanding contribution to the Company.

The Board of Directors wishes to acknowledge the contributions of our many employees and the Consultants and advisors with whom we partner. The Company's success would not be possible without their ongoing support and commitment.

## LOOKING AHEAD

There is an increasing recognition among Canadian investors that sound personal financial advice is integral to building a secure financial future. IGM Financial is well positioned to meet that growing need. Our leadership will be defined by our performance over the long term – through our support of investor needs, our commitment to providing quality investment advice and financial products, our service innovation, and our prudent and effective management of the Company.

We will continue to invest strategically in our business, focusing the strength of our organization to develop our businesses to deliver strong value to our clients and our investors.

On behalf of the Board of Directors,

Murray J. Taylor
*Co-President and*
*Chief Executive Officer*
*IGM Financial Inc.*

Charles R. Sims
*Co-President and*
*Chief Executive Officer*
*IGM Financial Inc.*

*February 17, 2006*

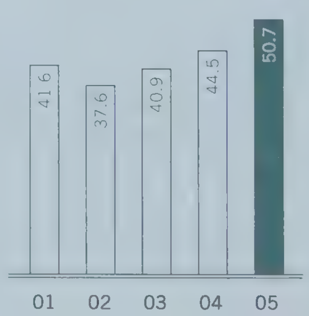
# Investors Group Inc.

Investors Group has a strong commitment to building long-term client and Consultant relationships. The company provides comprehensive financial planning advice, and services including investment, retirement, estate, and tax planning through a network of more than 3,600 Consultants to nearly one million Canadians. Investors Group offers investment management, securities, insurance, banking and mortgage products and services to our clients through integrated financial planning.

## HIGHLIGHTS

- Drawing on the growth of our Consultant network and our experienced field leadership, Investors Group added seven new region offices and significantly increased field management positions across the country to better support and mentor Consultants.
- Growth of the Consultant network remains strong, increasing from 3,496 to 3,668 Consultants in 2005. To the end of 2005, we have experienced six consecutive quarters of incremental growth.
- Driven by improved investment performance, strong Consultant retention, and increased client satisfaction and loyalty, the redemption rate for Investors Group's long-term mutual funds has declined to 8.7%, down 0.4% from the previous year.
- Sales momentum continues to be strong. Mutual fund gross sales increased by 16.2% in 2005 to $5.5 billion. Net sales of mutual funds were $778 million, up from $218 million in 2004.
- Investors Group's commitment to building enduring relationships remains a key long-term focus. These relationships are built one at a time, as the financial needs of close to one million clients are served through the expertise of the company's 1,600 employees and more than 3,600 Consultants across Canada.

**Consultant Mutual Fund Assets Under Management**
As at December 31 *($ billions)*




Murray J. Taylor
*President and Chief Executive Officer*
*Investors Group Inc.*

This has been a year of marked progress for Investors Group. Growth in our field management appointments and the expansion of our regional office network has allowed us to expand our Consultant team across the country. We continue to focus on building long-term relationships with our clients by effectively identifying and meeting their complex financial needs. This is done through sound personal financial advice combined with the delivery of a diverse range of products and services.

## BUILDING ON A FOUNDATION OF STRENGTH

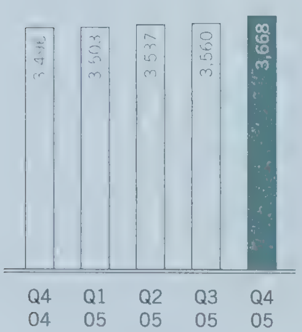
Growth of the Investors Group Consultant network continued strong in 2005. Growth since mid-2004 is the result of improvements to our effective, successful training and support programs, which occurred in 2003 and 2004. This has resulted in six consecutive quarters of network growth.

Fundamental to this success is the attractiveness of Investors Group's strategic approach and commitment to comprehensive, holistic financial planning. Our culture is unique and entrepreneurial, providing Consultants with the right environment to deliver personalized service and knowledgeable advice to our clients.

We further strengthened the quality of our Consultant network by increasing the depth of expertise in region offices across the country. We introduced seven new region offices and significantly increased the number of individuals in field management roles. Each office is supported by several Division Directors, who play key roles in the recruitment, training, and ongoing mentoring of new Consultants. During 2005, there was a 16% growth in field leaders associated with our region offices. By deepening our management and leadership strength in region offices, Investors Group is better able to support new and established Consultants in delivering effective financial planning advice to clients. This will also serve as a source of long-term strength.

Investors Group continued our support to Consultants with high-quality training programs. In 2005, we introduced an improved field-based training program for new Consultants. The program takes advantage of our increased leadership strength regionally and provides new Consultants with mentorship and the ongoing support of experienced managers. In addition, Investors Group's annual APEX conference provided advanced financial planning and practice management training to over 1,300 Consultants. The company's commitment to training and support of Consultants is unique in the industry. The excellence of our training programs, ongoing mentorship, and field leadership have supported the growth of the Investors Group Consultant network, while improving our Consultants' ability to deliver effective financial advice in an increasingly complex market.

**Consultants**
*(#)*




## BUILDING THROUGH INNOVATION

Investors Group has the unique ability to offer an industry-leading range of products and services to meet our clients' diverse needs. In addition to our $51 billion in mutual fund assets, we have helped our clients establish $37 billion in insurance coverage in force and $5 billion in banking and mortgage loan balances.

Consultant and client support of the Symphony Strategic Investment Planning™ (Symphony) approach continues to grow. The Symphony planning approach enables Consultants to build optimized risk-adjusted portfolios, and provides enhanced reporting features. Net flows to the Symphony based Alto and Allegro Portfolios increased 34% year-over-year. Enhancements to Portfolio Tuner, Symphony's portfolio rebalancing application, resulted in a significant increase in usage of the application within weeks of its launch in September 2005. Use of Symphony and Portfolio Tuner should continue to increase as Consultants embrace these productivity tools to provide enhanced portfolio management and service to clients.

Late in 2004, Investors Group introduced seven new mutual funds, including three monthly income funds, an income trust fund, and a real return bond fund, resulting in strong asset growth throughout 2005.

The company applies our experience and expertise in investment management to bring timely and innovative products to Canadian investors. With the continuing success of Investors Canadian Dividend Fund, the largest mutual fund in Canada, Investors Group announced the introduction of Investors Global Dividend Fund in late 2005. This fund is ideally suited to meet the needs of an aging population desiring equity-based income. The fund combines the benefits of a high quality, large capitalization equity fund with dividend payments, giving investors the dual advantage of income and growth. This new Global Dividend Fund draws on the strength of Investors Group's investment management resources around the world.

The company's holistic approach to financial planning is continuously enhanced through the evolution and expansion of our product and service offering.

## BUILDING COMMUNITIES

In 2005, Investors Group continued our unwavering support of the communities in which our employees, Consultants, and clients live and work. Once again, Consultants and employees have given tirelessly of their time and expertise, supporting countless local charitable organizations.

Corporately, Investors Group supports the United Way through contributions to local campaigns across Canada. As a major partner of Volunteer Canada, the company also encourages volunteerism throughout the country. In addition, Investors Group continued our support for the Canadian Association of Food Banks in 2005 through *Food for Thought*, a national campaign of local initiatives to raise awareness about hunger-related issues.

In 2005, Investors Group was proud to present the second annual Herbert H. Carnegie Award to Vince O'Shea, an Executive Financial Consultant in the Edmonton Southside office. This prestigious award recognizes Investors Group Consultants who demonstrate outstanding client service and extraordinary long-term community service. It is named in honour of Investor Group Consultant and Order of Canada recipient Herb Carnegie. Mr. O'Shea received this year's award in recognition of his exceptional support of the Spinal Cord Society. Mr. O'Shea founded the Society's 5K Walk, Run and Roll event. This year's event attracted 400 participants and raised $210,000 to help fund the search for a cure for spinal cord injuries. In the 10 years he has championed the event, he and hundreds of volunteers have raised $572,000 for the Spinal Cord Society. Investors Group applauds Vince and is exceptionally proud of his contribution.

Investors Group is committed to corporate citizenship and building strong, enduring partnerships within our communities. We are a people company and believe sincerely that these relationships are an integral part of who we are. To support employees and their exceptional efforts across Canada, the company launched the Employees in Action initiative, which supports employees in their community involvement.

## CONFIDENCE DEEPENS

Investors Group is not only growing, we are growing stronger. With six consecutive quarters of sustained growth of the Consultant network, enhanced management strength and expertise in the field, and a proven program of training and support, the company is more confident than ever in our ability to provide valuable personal financial advice to our clients.

The active engagement of employees, the continual refinement of the financial planning process, and the expansion of our product and service offering demonstrate the company's commitment to meet the evolving financial needs of Canadians.

Investors Group remains focused on providing Canadians with knowledgeable financial planning advice combined with high-quality products and services. The company's commitment to building enduring relationships is strong, as is demonstrated by our partnership with Consultants, long-term relationships with clients, and support of our communities.

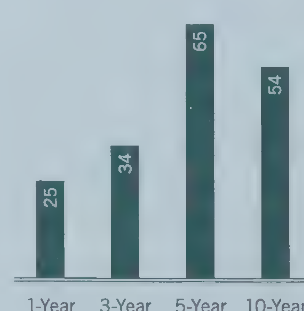
# Mackenzie Financial Corporation

Founded in 1967, Mackenzie Financial Corporation is recognized as one of Canada's premier investment managers, providing investment advisory and related services in North America. The company strives to provide strong relative long-term investment performance. Mackenzie has established and continues to build strong relationships with independent financial advisors, providing a diversified distribution network for its services and products. Under the Mackenzie master brand, the company deploys a sub-branding strategy that includes Cundill, Ivy, Maxxum, Sentinel, Select Managers, and Universal. Mackenzie also provides asset allocation and managed product investment solutions through the Keystone and Symmetry brands.

## HIGHLIGHTS

- At December 31, 2005, 65% of Mackenzie's mutual fund assets under management were ranked in the first or second quartile based on a five-year performance, and 54% of its assets under management were ranked in the first or second quartile on a 10-year performance basis.
- During 2005, Mackenzie continued to build and develop relationships within the financial advisory channel resulting in mutual fund sales of $8.1 billion. Net sales increased to $1.2 billion in 2005, versus net sales of $795 million in 2004.
- At the Canadian Investment Awards in December 2005, the Mackenzie Universal Canadian Resources Fund was voted top Natural Resources Equity Fund, and the Mackenzie Cundill Recovery Fund was named top Global Equity Fund of the year.
- Investor confidence remained high in 2005. The Canadian market proved to be one of the best performing developed markets in the world, and Mackenzie has benefited from that confidence as fund flows continued to increase.

**Fund Performance**
As at December 31, 2005
*(% of assets)*




% of Assets in the 1st and 2nd Quartiles
(Source: Morningstar[†])


Charles Sims
*President and Chief Executive Officer*
*Mackenzie Financial Corporation*

Operationally, quality characterizes Mackenzie's approach to its business.

## QUALITY IN INVESTMENT MANAGEMENT

Mackenzie has always focused on providing superior long-term investment returns. A quality approach to investment management enables the company to consistently deliver those returns to investors. The management process, depth, and quality of research capability and talent of Mackenzie's fund managers and sub-advisors all contribute to our success over time. Sixty-five percent of Mackenzie's mutual fund assets enjoy a five-year investment performance ranking that ranks in the first and/or second quartiles of the funds' appropriate peer group. Mackenzie has 69 funds with a Morningstar† three-, four-, or five-star rating.

## QUALITY IN DISTRIBUTION

The strength of Mackenzie's distribution network comes from the quality of relationships we enjoy across multiple channels. Mackenzie investment products are distributed to investors through retail brokers, financial advisors, insurance agents, banks, and financial institutions, giving the company one of the broadest distribution platforms of any investment company in Canada. Mackenzie continues to further penetrate these channels, extending our distribution platform and building upon these important relationships within the financial advice channel.

In 2005, Mackenzie realized gross mutual fund sales of $8.1 billion. Redemption rates on long-term funds were 14.8%, up from 13.8% in 2004. Strong sales performance is evidence of the strength and quality of Mackenzie's distribution network.

## QUALITY IN SERVICE

Mackenzie is focused on the customer in the delivery of the highest quality service to independent advisors and their clients. Service is available where, when, and how it is needed, either via telephone, online, or in

person. The company strives to be responsive to customer needs and looks to continually improve service levels and cost efficiency.

Mackenzie offers advisor training and support through its educational programs. Through strong relationships built by Mackenzie employees, advisors benefit from ongoing education in leading business management and product training programs.

The success of these efforts is evidenced in a recent TARP survey. Overall satisfaction with Mackenzie among advisors was over 83% in 2004, up significantly from 73% in 2001. The survey also found that nearly 88% of advisors are likely to recommend Mackenzie funds to their clients, and over 84% would recommend Mackenzie to other advisors. Finally, the survey revealed that 38% of advisors polled rate Mackenzie as the overall best investment management company, ahead of the nearest competitor at 25%.

**Sales of Mutual Funds**
For the financial year *($ millions)*


## OPPORTUNITY FOR GROWTH

In 2005, Mackenzie focused on three key areas that represent opportunity for the company's strategic growth.

### Income Fund Sector

Asset class ownership trends continue to indicate a shift in investor preference from foreign equity funds to income funds. From 1999 to 2004, ownership of dividend income funds increased by 7% industry wide, while foreign equity fund ownership decreased 9%. Mackenzie continued to respond to this trend by again retooling the Maxxum fund family, introducing a monthly income fund and by expanding the product options in the Sentinel brand with an Income Trust Fund.

### Global Fund Sector

While international and global equity have recently been out of favour with investors, the changes announced earlier in the year by the federal government to eliminate foreign content restrictions on registered retirement savings plans will cause investors and advisors to review their portfolios. Mackenzie, in looking to anticipate this trend, added to our already strong list of global and international fund offerings under the Cundill, Ivy, and Universal sub-brands, the Maxxum Global Explorer Fund.

### Institutional Mandates

Mackenzie recognizes institutional and sub-advisory mandates as an important component of our overall distribution strategy, and as such, is targeting expansion into these markets. These efforts were successful in 2005 with the expansion of a strategic relationship in the United States and the addition of Mackenzie mandates on a number of large institutional platforms in Canada during the year.

## INVESTING IN COMMUNITIES

Mackenzie's commitment to quality and excellence in our business also applies in our commitment to community investment. Mackenzie has a long tradition of philanthropic giving. Mackenzie's community investment programs are focused on three areas – corporate philanthropy, employee volunteerism, and the Mackenzie Financial Charitable Foundation.

Mackenzie's corporate giving programs include support for a wide variety of charities at the national level. In addition, our regional sales teams are afforded an opportunity to support charitable organizations locally. Across Canada, in 2005, their support of local charities totaled nearly $400,000.

Mackenzie's reputation is also earned by the leadership of our employees, a large number of whom are active volunteers in their own communities. Mackenzie offers its employees one paid day per year to volunteer at a charity of their choice. We also offer programs to match employees' fundraising efforts, up to $3,000 per event, per year. There are a variety of organized events to facilitate such opportunities, and these programs enjoy a high level of support and participation. Through a series of annual awards, Mackenzie recognizes employees for their volunteering and fundraising efforts. The success of these programs helps to foster a healthy and positive workplace, which in turn allows us to attract and retain talented individuals to our team.

In 1999, we established the Mackenzie Financial Charitable Foundation, a registered Canadian charity managed entirely by volunteer employees. The Foundation acts as a centralized body through which a significant portion of our charitable giving, volunteering, and fundraising programs are coordinated. Its main areas of focus are in the fields of health services and health research, social welfare, education and poverty-related causes, with a particular emphasis on charities that support children and young adults. The Foundation has steadily grown in its size and reach, enjoying growing awareness with financial advisors and the Canadian investing public.

## CATALYSTS OF CHANGE

Mackenzie's leadership is clear. By many measures, including assets under management, sales performance, advisor satisfaction, and industry recognition and awards, Mackenzie has earned the privilege of claiming a leadership position in the industry.

The company's leadership is also measured by the quality it delivers, and by the integrity with which we conduct our business.

Leadership demands a proactive approach. As an industry leader, Mackenzie is a catalyst of change. Combined with a proven ability to capture Canadian equity and balanced fund market share, the company's enhanced focus on income products and its continued innovation in the foreign equity category will provide an opportunity to continue to provide financial advisors and investors with investment solutions that meet their evolving needs.

# Investment Planning Counsel Inc.

Investment Planning Counsel is an integrated financial services company focused on providing Canadians with high-quality financial products, services, and advice, while helping them achieve their financial dreams. Investment Planning Counsel is a leading choice for independent financial planners dedicated to delivering quality, client-focused advice.

Investment Planning Counsel is the fifth largest independent distributor of financial products, services, and advice in Canada. From its inception in 1996 through 2005, it has continued to evolve and adapt to meet the needs and expectations of their clients and advisors.

## HIGHLIGHTS

- In 2005, Investment Planning Counsel saw Assets Under Administration increase from $8.0 billion to over $8.9 billion.
- Assets Under Management (AUM) grew from approximately $1.5 billion to $1.9 billion in 2005.
- Investment Planning Counsel partners with over 500 advisors across the country and continues to attract some of Canada's leading financial planners.

## STRENGTH IN PARTNERSHIP

The relationship between IGM Financial and Investment Planning Counsel provides a solid foundation for growth and excellence. The scale, strength, and expertise of IGM Financial allows Investment Planning Counsel to improve operational efficiencies in various processes such as compliance and back-office infrastructure. The relationship enables the company to provide its advisors with a strong and stable operating environment, thereby allowing them to build a better business, while providing enhanced client service.

In addition to its mutual fund products, advisors have access to insurance, securities, and mortgage products. This attractive product offering gives advisors an extensive range of financial products to support their service to clients. In 2005, Investment Planning Counsel continued to draw on its relationship with the IGM Financial group of companies, allowing them to create a more substantial offering for their clients and advisors.

## BUILDING FOR THE FUTURE

Investment Planning Counsel continues to improve its product and service offering for advisors and clients. Building on its proven approach, the company is delivering the products, tools, and support necessary to make their advisors effective in the industry. Continued commitment to investing in its business is a strategic direction for 2006. With ongoing improvements to its business fundamentals, Investment Planning Counsel will continue to deliver value to advisors and clients, while building its reputation as a leading advisor network.

# Financial Section

# Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) presents management's view of the operations and financial condition of IGM Financial Inc. (IGM Financial or the Company) for the years ended December 31, 2005 and 2004. Commentary in the MD&A as at and for the year ended December 31, 2005 is as of February 16, 2006.

**Basis of Presentation and Summary of Accounting Policies**
The Consolidated Financial Statements of IGM Financial, which are the basis of information presented in the Company's MD&A, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars – refer to Note 1 of the Consolidated Financial Statements.

**Principal Holders of Voting Shares**
As at December 31, 2005, Power Financial Corporation (PFC) and Great-West Lifeco Inc. (GWL) held 55.9% and 3.5%, respectively, of the outstanding common shares of IGM Financial.

## FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about IGM Financial, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Company action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive. The reader is also cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no specific intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

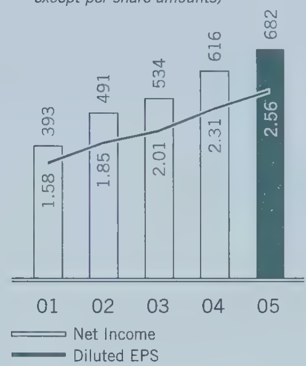
# IGM Financial Inc.
# Summary of Consolidated Operating Results

Net income for the year ended December 31, 2005 was $682.4 million, compared to adjusted net income of $615.6 million in 2004, an increase of 10.9%. Diluted earnings per share were $2.56, an increase of 10.8% compared to adjusted earnings per share of $2.31 in 2004. Adjusted net income and earnings per share for 2004 excludes a non-recurring expense. Net income in 2004 without adjustment totalled $596.4 million and diluted earnings per share on this basis were $2.24.

Shareholders' equity was $3.45 billion as at December 31, 2005, up from $3.15 billion at December 31, 2004. Return on average common equity was 20.0% for the year ended December 31, 2005 compared with adjusted return on average common equity of 19.8% in 2004. The quarterly dividend per common share was increased to 34.5 cents in 2005 from 30.0 cents at the end of 2004.

**Net Income and Diluted Earnings per Share**

For the financial year *($ millions, except per share amounts)*




2001 excludes goodwill amortization and Mackenzie restructuring costs.

2003 excludes dilution gain, restructuring reversal related to Mackenzie and non-cash income tax charge.

2004 excludes unitholder compensation.

### NON-GAAP FINANCIAL MEASURES

Adjusted net income, diluted earnings per share (EPS) and return on common equity (ROE) for the year ended December 31, 2004 excluded a charge to earnings

TABLE 1: RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| *($ millions)* | NET INCOME | EPS | NET INCOME | EPS | NET INCOME | EPS |
| **Adjusted net income – Non-GAAP measure** | **$ 682.4** | **$ 2.56** | $ 615.6 | $ 2.31 | $ 533.5 | $ 2.01 |
| Unitholder compensation, net of tax | – | – | (19.2) | (0.07) | – | – |
| Dilution gain | – | – | – | – | 14.8 | 0.05 |
| Restructuring reversal, net of tax | – | – | – | – | 15.6 | 0.06 |
| Non-cash income tax charge | – | – | – | – | (24.8) | (0.09) |
| **Net income – GAAP** | **$ 682.4** | **$ 2.56** | $ 596.4 | $ 2.24 | $ 539.1 | $ 2.03 |
| **EBITDA – Non-GAAP measure** | **$ 1,365.5** | | $ 1,253.1 | | $ 1,138.6 | |
| Commission amortization | **(260.2)** | | (226.7) | | (193.9) | |
| Amortization of capital and intangible assets | **(22.4)** | | (22.9) | | (27.4) | |
| Interest expense on long-term debt and dividends on preferred shares | **(107.5)** | | (112.2) | | (118.6) | |
| Unitholder compensation | – | | (28.8) | | – | |
| Dilution gain | – | | – | | 14.8 | |
| Restructuring reversal | – | | – | | 24.8 | |
| **Income before income taxes and non-controlling interest** | **975.4** | | 862.5 | | 838.3 | |
| Income taxes | **(291.5)** | | (264.9) | | (299.2) | |
| Non-controlling interest | **(1.5)** | | (1.2) | | – | |
| **Net income – GAAP** | **$ 682.4** | | $ 596.4 | | $ 539.1 | |

recorded in the fourth quarter of $28.8 million ($19.2 million after tax) which included both compensation payments to certain unitholders of Investors Group and related costs resulting from settlement agreements with regulatory agencies (unitholder compensation). Adjusted net income, EPS and ROE for the year ended December 31, 2003 exclude a dilution gain resulting from the reduction in the Company's percentage ownership of GWL related to their acquisition of The Canada Life Assurance Company (Canada Life), a reversal of restructuring costs related to the acquisition of Mackenzie Financial Corporation (Mackenzie) and a non-cash income tax charge related to increases in Ontario tax rates. While these non-GAAP financial measures are used to provide management and investors with additional measures to assess earnings performance, they do not have standard meanings and are not directly comparable to similar measures used by other companies.

Earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortization (EBITDA) are also non-GAAP financial measures. EBIT and EBITDA are alternative measures of performance utilized by management, investors and investment analysts to evaluate and analyze the Company's results. EBITDA is discussed further in the Consolidated Liquidity section later in this MD&A. These non-GAAP financial measures do not have standard meanings and are not directly comparable to any GAAP measure or to similar measures used by other companies.

The reconciliation of non-GAAP results to reported results in accordance with GAAP for net income, EPS and EBITDA is provided in Table 1. The reconciliation of non-GAAP results to reported results in accordance with GAAP related to EBIT is provided in Table 2.

## REPORTABLE SEGMENTS

IGM Financial's reportable segments, which reflect the current organizational structure, are:

- Investors Group
- Mackenzie
- Corporate and Other

TABLE 2: CONSOLIDATED OPERATING RESULTS BY SEGMENT

| | INVESTORS GROUP | | MACKENZIE | | CORPORATE & OTHER[1] | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| *($ millions)* | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| Fee income | **$ 1,201.5** | $ 1,080.8 | **$ 863.3** | $ 821.6 | **$ 99.7** | $ 53.4 | **$ 2,164.5** | $ 1,955.8 |
| Net investment income and other | **126.4** | 123.3 | **19.0** | 15.8 | **37.7** | 24.2 | **183.1** | 163.3 |
| | **1,327.9** | 1,204.1 | **882.3** | 837.4 | **137.4** | 77.6 | **2,347.6** | 2,119.1 |
| Operating expenses | | | | | | | | |
| Commissions | **326.5** | 264.0 | **339.9** | 320.2 | **60.1** | 32.5 | **726.5** | 616.7 |
| Non-commission | **265.5** | 273.8 | **258.9** | 255.6 | **30.9** | 14.9 | **555.3** | 544.3 |
| | **592.0** | 537.8 | **598.8** | 575.8 | **91.0** | 47.4 | **1,281.8** | 1,161.0 |
| **Earnings before interest and taxes** | **$ 735.9** | $ 666.3 | **$ 283.5** | $ 261.6 | **$ 46.4** | $ 30.2 | **1,065.8** | 958.1 |
| Interest expense | | | | | | | **90.4** | 95.6 |
| Income before income taxes and non-controlling interest | | | | | | | **975.4** | 862.5 |
| Income taxes | | | | | | | **291.5** | 264.9 |
| Income before non-controlling interest | | | | | | | **683.9** | 597.6 |
| Non-controlling interest | | | | | | | **1.5** | 1.2 |
| **Net income** | | | | | | | | |
| In accordance with GAAP | | | | | | | **$ 682.4** | $ 596.4 |
| Adjusted net income[2] | | | | | | | **$ 682.4** | $ 615.6 |

*(1) 2004 includes Investment Planning Counsel's results from the date of acquisition.*

*(2) Refer to Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.*

Management measures and evaluates the performance of these segments based on EBIT as shown in Table 2.

Discussion of Investors Group and Mackenzie Segment Operating Results is contained in their respective sections of this MD&A.

On May 10, 2004, the Company acquired a 74.7% interest in Investment Planning Counsel Inc. (Investment Planning Counsel). The Company's operating results include its earnings from the date of acquisition which are reported in the Corporate and Other segment in Table 2. Additional information related to the acquisition is included in Note 21 to the Consolidated Financial Statements.

Earnings before interest and taxes for Corporate and Other, the segment which includes operating results for Investment Planning Counsel, net investment income earned on unallocated investments and other income as well as inter-segment eliminations, were $46.4 million for the year ended December 31, 2005 compared to $30.2 million in 2004. The increase of $16.2 million resulted primarily from:

- The inclusion of Investment Planning Counsel's earnings before interest and taxes for the entire twelve months in 2005 compared with the period from May 10 to December 31, 2004 which accounted for an increase of $6.2 million.
- The elimination of certain provisions, established as a result of previous acquisitions, which were no longer required and which accounted for an increase in income of $10.4 million.

Certain items reflected in Table 2 are not allocated to segments:

- *Interest expense* – Represents both the interest cost on the remaining debt issued pursuant to the Mackenzie acquisition and dividends paid on the outstanding preferred shares, which have been reclassified from equity to liabilities (refer to Note 1 of the Consolidated Financial Statements). Interest expense on long-term debt issued in relation to the Mackenzie acquisition totalled $69.7 million in 2005 compared with $74.9 million in 2004. The decrease in expense was due to the repayment of the remaining $175 million balance of the Floating Bankers' Acceptance related to the Mackenzie acquisition in the fourth quarter of 2004. Dividends paid on preferred shares were $20.7 million in both 2005 and 2004.
- *Income taxes* – The effective rate of tax in 2005 was 29.9% compared with 30.7% in 2004 as shown in Table 3.

The decrease in the effective tax rate relates primarily to the recognition of favourable tax experience which is reflected in Other items. Tax planning may allow the Company to record lower income taxes in the current period and, as well, income taxes recorded in prior periods may be adjusted in the current period to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in Other items, which also includes, but is not limited to, the effect of lower effective tax rates on income not subject to tax in Canada. Management monitors the status of its income tax filings, and regularly assesses the overall adequacy of its provision for income taxes.

TABLE 3: EFFECTIVE INCOME TAX RATE

| | 2005 | 2004 |
|---|---|---|
| **Income taxes at Canadian federal and provincial statutory rates** | **35.93%** | 36.17% |
| Effect of: | | |
| Dividend income | **(0.30)** | (0.22) |
| Net capital gains and losses | **(0.75)** | (0.74) |
| Share of earnings of affiliate | **(2.72)** | (3.06) |
| Preferred dividends paid | **0.79** | 0.90 |
| Other items | **(3.06)** | (2.33) |
| **Effective income tax rate** | **29.89%** | 30.72% |

## SELECTED ANNUAL INFORMATION

Financial information for the three most recently completed years is included in Table 4.

- *Net Income and Earnings per Share* – Table 1 of the MD&A shows the reconciliation of non-GAAP financial results to GAAP results for the three years under review. Adjusted net income in 2004 was $615.6 million compared with adjusted net income in 2003 which was $533.5 million. Except as noted in the adjusted net income reconciliation in Table 1, variations in net income and total revenues result primarily from changes in total mutual fund assets under management. Average daily mutual fund assets under management by year are shown on Table 4. The impact on earnings and revenues of changes in mutual fund assets under management are discussed in the Review of Segment Operations sections of the MD&A for both Investors Group and Mackenzie.
- *Dividends per Common Share* – Dividends per common share have increased by approximately 16% in each of the three years under review.

TABLE 4: SELECTED ANNUAL INFORMATION

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Consolidated statements of income** *($ millions)* | | | |
| Fee income | **$ 2,164.5** | $ 1,955.8 | $ 1,714.4 |
| Net investment income | **183.1** | 163.3 | 159.8 |
| | **2,347.6** | 2,119.1 | 1,874.2 |
| Operating expenses | **1,372.2** | 1,256.6 | 1,050.7 |
| | **975.4** | 862.5 | 823.5 |
| Dilution gain | **–** | – | 14.8 |
| Income before undernoted | **975.4** | 862.5 | 838.3 |
| Income taxes | **291.5** | 264.9 | 299.2 |
| | **683.9** | 597.6 | 539.1 |
| Non-controlling interest | **1.5** | 1.2 | – |
| **Net income** | | | |
| In accordance with GAAP | **$ 682.4** | $ 596.4 | $ 539.1 |
| Adjusted net income(1) | | $ 615.6 | $ 533.5 |
| **Earnings per share** *($)* | | | |
| In accordance with GAAP – Basic | **$ 2.58** | $ 2.26 | $ 2.04 |
| – Diluted | **$ 2.56** | $ 2.24 | $ 2.03 |
| Adjusted earnings per share(1) | | | |
| – Basic | **$ 2.58** | $ 2.33 | $ 2.02 |
| – Diluted | **$ 2.56** | $ 2.31 | $ 2.01 |
| **Dividends per share** *($)* | | | |
| Common | **$ 1.34** | $ 1.15 | $ 0.99 |
| Preferred | **$ 1.44** | $ 1.44 | $ 1.44 |
| **Average daily mutual fund assets** *($ millions)* | **$ 87,723** | $ 78,793 | $ 68,858 |
| **Total corporate assets** *($ millions)* | **$ 6,807** | $ 6,473 | $ 6,292 |
| **Total long-term debt** *($ millions)* | **$ 1,225** | $ 1,227 | $ 1,404 |
| **Outstanding common shares** *(thousands)* | **264,539** | 264,598 | 264,090 |

*(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.*

## SUMMARY OF QUARTERLY RESULTS

Financial information for the eight most recently completed quarters is included in Table 5. Significant variation in quarterly earnings occurred in the fourth quarter of 2004 due to the $28.8 million charge ($19.2 million after-tax) recorded by IGM Financial related to unitholder compensation as described earlier in the Summary of Consolidated Operating Results. With the exception of the item noted above, there were no significant variations to quarterly results. Quarterly results are not subject to significant seasonal fluctuations because earnings are primarily dependent on the level of mutual fund assets under management. Average daily mutual fund assets under management by quarter are shown in the Summary of Quarterly Results on Table 5. Although mutual fund sales are generally higher in the first quarter of each year as a result of the RSP season, the impact of the higher sales on that quarter's earnings is not significant.

TABLE 5: SUMMARY OF QUARTERLY RESULTS

| | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | 4 | 3 | 2 | 1 | 4 | 3 | 2 | 1 |
| **Consolidated statements of income** *($ millions)* | | | | | | | | |
| Fee and net investment income | | | | | | | | |
| Management | **427.1** | **420.5** | **406.4** | **390.7** | 383.2 | 371.7 | 371.7 | 365.1 |
| Administration | **78.0** | **74.5** | **75.4** | **79.5** | 71.6 | 74.2 | 75.8 | 78.0 |
| Distribution | **55.9** | **53.4** | **49.8** | **53.3** | 46.2 | 44.5 | 38.9 | 34.9 |
| Net investment income and other | **47.3** | **38.6** | **47.6** | **49.6** | 47.1 | 36.7 | 37.1 | 42.4 |
| Total fee and net investment income | **608.3** | **587.0** | **579.2** | **573.1** | 548.1 | 527.1 | 523.5 | 520.4 |
| Operating expenses | | | | | | | | |
| Commission expense | **189.5** | **183.5** | **177.9** | **175.6** | 163.8 | 155.3 | 153.8 | 143.8 |
| Non-commission expense | **141.2** | **135.6** | **135.7** | **142.8** | 154.2 | 126.6 | 126.7 | 136.8 |
| Interest expense | **22.7** | **22.8** | **22.5** | **22.4** | 24.1 | 23.9 | 23.7 | 23.9 |
| Total operating expenses | **353.4** | **341.9** | **336.1** | **340.8** | 342.1 | 305.8 | 304.2 | 304.5 |
| Income before undernoted | **254.9** | **245.1** | **243.1** | **232.3** | 206.0 | 221.3 | 219.3 | 215.9 |
| Income taxes | **77.5** | **68.3** | **74.6** | **71.1** | 63.5 | 66.9 | 66.5 | 68.0 |
| | **177.4** | **176.8** | **168.5** | **161.2** | 142.5 | 154.4 | 152.8 | 147.9 |
| Non-controlling interest | **0.2** | **0.2** | **0.6** | **0.5** | 0.4 | 0.6 | 0.2 | – |
| **Net income** | | | | | | | | |
| In accordance with GAAP | **177.2** | **176.6** | **167.9** | **160.7** | 142.1 | 153.8 | 152.6 | 147.9 |
| **Reconcilation of non-GAAP financial measures**[1] *($ millions)* | | | | | | | | |
| **Adjusted net income (non-GAAP)** | **177.2** | **176.6** | **167.9** | **160.7** | 161.3 | 153.8 | 152.6 | 147.9 |
| Unitholder compensation (net of tax) | **–** | **–** | **–** | **–** | (19.2) | – | – | – |
| **Net income (GAAP)** | **177.2** | **176.6** | **167.9** | **160.7** | 142.1 | 153.8 | 152.6 | 147.9 |
| **Earnings per share** *(¢)* | | | | | | | | |
| In accordance with GAAP | | | | | | | | |
| – Basic | **67** | **67** | **63** | **61** | 54 | 58 | 58 | 56 |
| – Diluted | **66** | **66** | **63** | **60** | 53 | 58 | 57 | 56 |
| Adjusted earnings per share[1] | | | | | | | | |
| – Basic | **67** | **67** | **63** | **61** | 61 | 58 | 58 | 56 |
| – Diluted | **66** | **66** | **63** | **60** | 61 | 58 | 57 | 56 |
| **Average daily mutual fund assets** *($ billions)* | **90.6** | **89.7** | **86.1** | **84.5** | 80.6 | 78.4 | 78.8 | 77.3 |

*(1) Refer to the Summary of Consolidated Operating Results for an explanation of the Company's use of non-GAAP financial measures.*

# Investors Group
# Review of the Business

Investors Group's core business provides a broad range of financial and investment planning services to Canadians through its dedicated network of trained and supported Consultants.

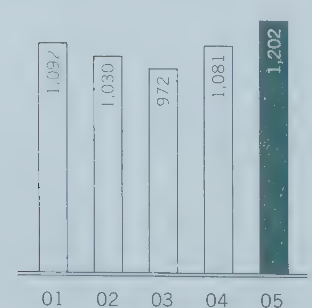
Investors Group earns revenue primarily from:

- Management fees charged to its mutual funds.
- Fees charged to its mutual funds for administrative and trustee services.
- Distribution fees charged to mutual fund account holders.

Fee income is also earned from the distribution of insurance products, banking and securities services. Additional revenue is derived from net investment income and other income, as discussed in the Review of Segment Operating Results.

Revenues depend largely on the value and composition of assets under management. Our comprehensive approach to financial planning, accomplished by our Consultants through the broad range of financial products and services offered by Investors Group, has resulted in strong mutual fund sales and a mutual fund redemption rate lower than the industry average. Mutual fund gross sales through our Consultant network increased by 16.2% in 2005 to $5.5 billion, while net sales were $778 million, up from $218 million in 2004. Investors Group's redemption rate on long-term funds declined to 8.7% at December 31, 2005 from 9.1% in 2004 while the redemption rate for all other members of the Investment Funds Institute of Canada (IFIC) increased to 16.4% at December 31, 2005 from 15.3% in 2004.

**Fee Income – Investors Group**
For the financial year *($ millions)*




## SEGMENT STRATEGY

Investors Group strives to ensure that the interests of shareholders, clients, Consultants and employees are as closely aligned as possible. Investors Group's business approach embraces current trends in the Canadian financial services industry and our strategic plan is focused on:

1. Growing our distribution network through the attraction of new industry professionals and the retention of existing Consultants.
2. Emphasizing the delivery of financial planning advice, products and services through our dedicated network of well trained and well supported Consultants.
3. Extending the diversity and range of products offered by Investors Group as we continue to build and maintain enduring relationships by meeting the changing needs of our broad spectrum of clients.
4. Maximizing returns on business investment by:
   - Focusing resources on initiatives that have direct benefits to clients and Consultants.
   - Controlling expenditures through the management of staffing levels, improved productivity, effective and continual investments in technology, and the management of discretionary expenses while capitalizing on economies of scale through our relationship with Mackenzie and Investment Planning Counsel, along with other members of the Power Financial group of companies.

## CORE BUSINESS

### Consultants

Investors Group distinguishes itself from its competition by offering personal financial planning to its clients within the context of long-term relationships. At the centre of this relationship is a national distribution network of Consultants located in 115 Financial Planning Centres across Canada.

As part of our commitment to continued growth, we expanded the size of our field management in 2005 by 15.9%. In addition to expanding the number of individuals in field management roles, we also expanded their management training, their role in training new Consultants and the tools available to monitor the progress of these Consultants.

Concurrent with the growth of our field management and the number of new Consultants, we added seven new region offices in 2005. Two offices in Quebec and two offices in Ontario transitioned from division office to region office status while three additional new region offices were established in Calgary, Edmonton and Toronto.

### RECRUITING AND RETENTION

Investors Group combines a number of interview and testing techniques to identify individuals who demonstrate a blend of experience, education and aptitude that makes them well suited to becoming successful financial planners. In 2005, our Division Directors and Field Trainers were provided with a new recruiting program together with additional tools to assist them in their recruitment efforts. These efforts, combined with our Consultant and field management compensation, recognition and support programs have proven successful, as evidenced by the growth of our Consultant network.

At the end of 2005, Investors Group had 3,668 Consultants, compared with 3,496 in 2004. The number of Consultants with more than four years experience was 2,100 compared to 2,030 a year earlier. Our Consultant network has grown in each of the last six consecutive quarters.

### CONSULTANT DEVELOPMENT

Management continues to focus on Consultant development. Our comprehensive Consultant Training program combines technical education with field experience. Each year, our training curriculum is reviewed and refreshed to offer new Consultants the essential building blocks they require to develop their individual businesses.

As Consultants progress, they develop their skills as financial planners and business managers by attending a selection of focused educational programs including: financial planning skills, product knowledge, client service, business development skills, compliance, technology, practice management and other related topics. Supplemental training, coaching and mentorship are top priorities for the Consultant network's Regional Directors and Division Directors across Canada.

In 2005, Investors Group continued to enhance its training and development programs for Consultants. This included the completion of our transition from a centralized training model to an area training model which is now delivered primarily through our region offices across Canada. We have also seen positive results from our Field Development Program, which was introduced in 2004 to provide enhanced coaching and mentorship to Consultants in their early years in the business and to increase their likelihood of success.

In keeping with Investors Group's commitment to maintaining a high standard of ethical business practices and conduct, Consultants also receive ongoing training, information and guidance regarding business standards, and regulatory and compliance matters.

Investors Group also supports industry initiatives to introduce uniform qualification requirements for use of the "financial planner" designation. Enrollment in programs to achieve a Certified Financial Planner (CFP) designation, or the equivalent designation in the province of Quebec (Pl. Fin.), is encouraged and supported.

### PRODUCTIVITY

Investors Group implemented a number of significant changes in 2005 designed to enhance the productivity of our field management and Consultants. These included:

- The introduction of a new web-based resource for Regional Directors and Division Directors to assist them in their management, recruitment and compliance efforts.
- The launch of an online system for Division Directors that tracks new Consultant effectiveness to assist with coaching opportunities.
- Symphony Strategic Investment Planning™ improved its Portfolio Tuner which now automatically calculates and recommends transactions across all fund series to implement or rebalance a client's investment portfolio and to re-balance a client's *i*Profile™ pool.
- Enhancements to the Company's order entry program to enable Consultants to transact on third party mutual fund accounts and to provide trade validation against existence of Know Your Client (KYC) information. This order entry system was developed by Winfund Software Corp. which is owned by a subsidiary of Mackenzie and its software is used by over 95 dealers within the mutual fund industry.
- Automated the delivery of prospectuses directly to clients in all situations where they should have a current prospectus.
- Senior Insurance Specialists were hired in both Vancouver and Montreal with a mandate to assist with larger insurance cases.

Management believes that these initiatives make Investors Group more attractive and competitive to Consultants and potential Consultants, and should lead to greater recruitment, productivity, asset growth and compliance into the future.

### Products and Services

Investors Group is regarded as a leader in personal financial planning in Canada. This is achieved by delivering personal financial solutions tailored to each client's individual needs. Consultants recommend balanced, diversified and professionally managed portfolios that reflect the client's goals, preferences and risk tolerance. They also look beyond investments to offer clients insurance products, banking services and mortgages.

#### PFP – PERSONAL FINANCIAL PLANNER

Investors Group's Personal Financial Planner (PFP) software handles a wide range of potential financial planning needs – from projections and illustrations for basic financial planning concepts to the preparation of written financial plans which integrate all disciplines of financial planning, including investment, tax, retirement, education and estate planning, as well as risk management. The PFP software continues to enhance the quality and professionalism of written financial plans prepared by Consultants.

#### SYMPHONY STRATEGIC INVESTMENT PLANNING PROGRAM

Symphony is Investors Group's strategic investment planning approach. Symphony is designed to help Consultants build their business with a sophisticated investment discipline, backed by a process that provides a methodology for measuring a client's risk tolerance. Based on that assessment, Consultants are able to provide risk-adjusted recommendations using Investors Group's broad offering of funds.

Symphony's Portfolio Tuner helps Consultants rebalance clients' investment portfolios over time and automatically calculates and recommends transactions to implement or rebalance these portfolios. In 2005, Portfolio Tuner was enhanced to include transactions across all fund series. Changes were also made to enable Portfolio Tuner to automatically rebalance *i*Profile accounts.

#### MUTUAL FUNDS

Investors Group is committed to enhancing the performance, scope and diversity of our investment products. With the removal of federal foreign content restrictions within Registered investments during the year, the company terminated its Investors Global Series RSP Funds and the *i*Profile Global Equity RSP Pool. We also renamed and broadened the investment objectives and strategy of Investors Corporate Bond Fund, changed the composition of the *i*Profile Fixed Income Pool, and announced the creation of a new dividend fund concentrating on global investments.

#### INVESTMENT MANAGEMENT

Investors Group has over $50.7 billion in mutual fund assets under management in 137 mutual funds covering a broad range of investment mandates.

Through our own international team of investment professionals and relationships with external investment advisors, we provide clients with access to a wide range of investment advisory services. Clients can take advantage of the opportunity to diversify their holdings across fund managers, asset categories, investment styles, geography, capitalization and sectors through portfolios customized to meet their objectives.

#### INVESTORS MASTERSERIES™ FUNDS

Investors Masterseries funds are managed by I.G. Investment Management, our own multi-disciplinary team of investment professionals with offices and advisors in North America, Europe and Asia. Our global connections, depth of research and use of information technology, combined with over 55 years of experience, provides us with investment management capabilities that enable us to offer our clients investment management expertise suitable for the widest range of investment objectives.

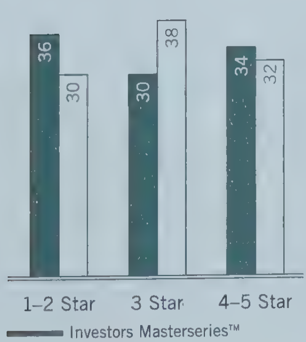
The Investors Masterseries family of funds includes 42 unit trust funds and 27 Corporate Class funds available in multiple series. The Corporate Class fund structure is discussed later in this report. The 42 unit trust funds include money market, fixed income, balanced, domestic and international equity, global and sector mandates. As at December 31, 2005, total assets related to these funds were $42.9 billion compared with $38.1 billion in 2004, an increase of 12.4%. Masterseries unit trust funds represented approximately 85% of the total Investors Group mutual fund assets under management, relatively unchanged from a year ago.

At December 31, 2005, 34% of Masterseries mutual funds had four or five star ratings from the Morningstar† fund ranking service and 64% had a rating of three stars or better, compared to 41% and 72% respectively at the end of 2004. Morningstar Ratings† are an objective, quantitative measure of a fund's three, five and ten year risk-adjusted performance relative to comparable funds. Although our four and five star ratings compared favourably versus the industry, our year-over-year results were impacted by a disproportionate number of funds represented in the Morningstar† calculations with only a 3-year performance measure due to the introduction of a large number of new funds over the last 5 years.

In June 2005, Investors Group broadened the investment objective and strategy of Investors Corporate Bond Fund to include government-issued bonds and re-named it Investors Canadian Bond Fund. We also took steps to enhance the yield on Investors Premium Money Market Fund and decreased the minimum investment from $100,000 to $25,000, thereby positioning the Fund as a competitive option for investors seeking short-term investments.

With the removal of federal foreign content restrictions within Registered investments during the year, the company also terminated its six Investors Global Series RSP Funds. Subsequent to unitholder approval in September, the units of the Investors U.S. Large Cap Value RSP Fund, Investors Global Science & Technology RSP Fund, Investors Global RSP Fund, Investors European Equity RSP Fund, Investors Japanese Equity RSP Fund and IG AGF U.S. Growth RSP Fund held by unitholders were exchanged for units of the same series of the underlying funds.

**Morningstar† Ratings – Masterseries™**
As at December 31, 2005
*(% of funds)*




(Source: Morningstar†)

Leveraging off of our global investment management expertise, the Company also announced the creation of Investors Global Dividend Fund – one of the first funds of its kind in Canada – which was launched in January 2006.

### INVESTORS GROUP CORPORATE CLASS INC.

Investors Group introduced Investors Group Corporate Class Inc., a broad tax advantaged fund structure, in 2002. This group of funds features switching with no immediate tax consequences on a fee-free basis among 46 funds within the group. The funds include 27 of Investors Group's own Masterseries funds advised by I.G. Investment Management as well as funds advised by Mackenzie, AGF Funds Inc., Beutel, Goodman & Company, Ltd., Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management and Bissett Investment Management.

By the end of 2005, the Corporate Class funds had attracted $1.1 billion in assets compared with $659 million in 2004.

### MANAGED ASSET AND MULTI-MANAGER INVESTMENT PROGRAMS

Investors Group provides clients with access to a growing selection of asset allocation opportunities directed by some of the world's leading money-management firms. These programs include:

- **Allegro™ Portfolios**: The Allegro Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification. The seven portfolios include Investors Masterseries funds, Mackenzie partner funds as well as a wide variety of other partner funds. The asset mix of the Allegro portfolios was updated using the same strategic investment planning approach that was developed for the Symphony individual fund recommendations. Since their introduction in 2001, fund assets have grown to $1.6 billion as of December 31, 2005 compared with $1.1 billion in the previous year.
- **Alto™ Portfolios**: The Alto Portfolios provide a single step investment solution offering geographic, investment style and asset class diversification. The ten portfolios include Investors Masterseries funds and Mackenzie partner funds. Assets in the portfolios grew to $666 million as of December 31, 2005 compared with $157 million in 2004.

- **Masterseries™ Portfolios**: This fund program has assets in excess of $7.2 billion as at December 31, 2005, compared with $6.5 billion in the previous year. The program is comprised of eight funds which invest in 21 underlying Masterseries funds to provide a high level of diversification.
- ***i*Profile™**: This is a unique portfolio management program introduced in 2001 for clients with assets over $250,000. *i*Profile investment portfolios have been designed to maximize returns and manage risk by diversifying across asset classes, management styles and geographic regions. The program is advised by a select group of 12 global money management firms such as Goldman Sachs Asset Management, Jarislowsky Fraser Limited, Waddell & Reed, J.P. Morgan and I.G. Investment Management, Ltd. With the elimination of foreign content restrictions for Registered investments, the company terminated the *i*Profile Global Equity RSP Pool in September 2005 with the units exchanged for units in the underlying pool. In December 2005 the asset allocation of the *i*Profile Fixed Income Pool was changed to include a component investing in Investors Real Property Fund. By the end of 2005, this program had $514 million in assets, compared with $437 million in the previous year.

### PARTNER FUNDS

Partner funds are an important element of Investors Group's mutual fund product shelf, offering a range of investment disciplines through advisory relationships with other investment management firms. Partner funds are comprised of 26 unit trust funds and 19 Corporate Class funds.

With respect to the partner fund unit trusts, Investors Group continued its relationships with highly regarded investment managers AGF Funds Inc., Beutel, Goodman & Company, Ltd., Bissett Investment Management (an operating division of Franklin Templeton Investments Corp.), Fidelity Investments Canada Limited, Franklin Templeton Investments Corp., Goldman Sachs Asset Management, L.P. and Mackenzie.

Investors Group oversees external investment advisors who are responsible for ensuring that their activities are consistent with Investors Group's investment philosophy and with the stated investment objectives and strategies of their respective funds.

At December 31, 2005, partner unit trust funds totalled $6.2 billion or approximately 12% of Investors Group's mutual fund assets under management, compared with $5.3 billion and similar proportion last year. Mackenzie currently provides investment advisory services for six of the partner funds with total assets of $2.0 billion.

### SEGREGATED FUNDS

Investors Group offers eight segregated funds that are distributed solely by Investors Group Consultants. Our segregated funds provide death benefit guarantees and potential creditor protection. These funds also provide protection from long-term market volatility by providing two levels of guarantees – 75% or 100% of the principal invested. These products are underwritten by The Great-West Life Assurance Company (Great-West Life) and the investment components are managed by Investors Group.

### INSURANCE

Investors Group continues to be a leader in the distribution of life insurance in Canada. Through its arrangements with leading insurance companies, Investors Group offers a broad range of term, universal life, whole life, disability, critical illness, long-term care, personal health care coverage and group insurance. I.G. Insurance Services Inc. currently has distribution agreements with:

- The Great-West Life Assurance Company
- The Canada Life Assurance Company
- Sun Life Assurance Company of Canada
- The Manufacturers Life Insurance Company (Manulife)

In 2005, we continued to strengthen our relationship with other member companies within the Power Financial group, with Canada Life as our key provider of individual life insurance products and Great-West Life as our key provider of living benefit and group products. The expertise and support available to our Consultants through these companies continues to add value in terms of integrating insurance into a client's overall financial plan. Investors Group continues to have strong associations with our other providers for select life insurance and living benefit products.

During 2005, sales of insurance products as measured by annualized premiums were $33 million. Total face amount of insurance in force increased during 2005 to $37 billion. The average number of policies sold per Consultant was 8.6 in 2005 compared with

8.2 in 2004. Distribution of insurance products is enhanced through 39 insurance specialists who assist Consultants with the selection of insurance solutions.

### SECURITIES OPERATIONS

Investors Group Securities Inc. is an investment dealer registered in all provinces and territories providing securities services to clients seeking a broader product offering in combination with financial and investment planning. Investors Group Consultants can refer clients to one of the 25 securities specialists available through Investors Group Securities Inc.

During 2005, Investors Group Securities Inc. engaged MRS Securities Services Inc., a subsidiary of Mackenzie and a provider of intermediary services to a number of dealers across Canada, as its new carrying broker. This change is consistent with our strategy of capitalizing on economies of scale and using similar systems and processes where opportunities exist, while at the same time, preserving the integrity and privacy of each company's client base. Concurrent with this change, Les Services Investors Limitée (in Quebec) and Investors Group Financial Services Inc. (everywhere else in Canada) retained MRS Group's mutual fund dealers, M.R.S. Correspondent Corporation and M.R.S. Inc. respectively, as carrying dealers.

At December 31, 2005, assets under administration in Investors Group Securities Inc. were $1.4 billion, while assets under administration at IG-MRS were $3.5 billion. The assets gathered by Investors Group Securities Inc. during 2005 were $914 million, compared to $1.1 billion in 2004.

Management believes that securities and third-party mutual fund accommodation will continue to be important to assist Consultants to attract clients and maintain relationships with investors who wish to include individual securities and third-party funds as a part of their overall financial plan.

### MORTGAGE OPERATIONS

Investors Group Consultants play an integral role in sourcing residential mortgages through client referrals to Investors Group mortgage planning specialists. At December 31, 2005, Investors Group employed 50 mortgage specialists who originate mortgages in key residential markets.

Mortgage originations increased 18.4% over the previous year to 9,259 mortgages. The dollar value of these mortgages increased by 28.4% to $958 million from $746 million in 2004. The proportion of residential mortgages sourced with the assistance of Consultants has increased to 91.5% in 2005, up from 89% in 2004. Through its mortgage banking operations, mortgages are sold to Investors Mortgage Fund, Investors Group's intermediary operations, as well as to third parties and to mortgage conduits. Investors Group is responsible for the ongoing servicing of these mortgages.

In 2005, Investors Group introduced several competitively priced, non-standard term mortgages throughout the year which were well received by Consultants and clients.

Investors Group mortgage operations also provide both origination and servicing to:

- Investors Mortgage Fund, which because of its size requires a steady stream of high-quality mortgages.
- Investors Group Trust Co. Ltd. and Investors Syndicate Limited, both subsidiaries of the Company.
- London Life Insurance Company (London Life), a subsidiary of GWL.

### SOLUTIONS BANKING†

Investors Group's Solutions Banking† initiative continues to gain popularity with Consultants and clients. As at December 31, 2005, 90% of Investors Group Consultants have incorporated Solutions Banking† into their financial planning practices with one or more products sold compared to 75% in the previous year.

The offering consists of a wide range of products and services provided by National Bank of Canada under a long-term distribution agreement, and includes: investment loans, lines of credit, personal loans, creditor insurance, deposit accounts and credit cards. Clients have access to nearly 2,000 banking machines, as well as a private labeled client web site and private labeled client service centre.

The Solutions Banking† offering supports Investors Group's approach to delivering total financial solutions for our clients via a broad financial planning platform.

### ADDITIONAL PRODUCTS AND SERVICES

Investors Group also provides its clients with guaranteed investment certificates offered by Investors Group Trust Co. Ltd., as well as a number of other financial institutions.

# Review of Segment Operating Results

Investors Group's earnings from operations before interest and taxes for the year ended December 31, 2005 compared with 2004 are presented in Table 6.

TABLE 6: OPERATING RESULTS – INVESTORS GROUP

| *($ millions)* | 2005 | 2004 | CHANGE |
|---|---|---|---|
| **Fee and net investment income** | | | |
| Management | **$ 921.0** | $ 830.3 | 10.9% |
| Administration | **166.7** | 156.3 | 6.7 |
| Distribution | **113.8** | 94.2 | 20.8 |
| Net investment income and other | **126.4** | 123.3 | 2.5 |
| | **1,327.9** | 1,204.1 | 10.3 |
| **Operating expenses** | | | |
| Commissions | **148.0** | 108.8 | 36.0 |
| Asset retention bonus and premium | **178.5** | 155.2 | 15.0 |
| Non-commission | **265.5** | 273.8 | (3.0) |
| | **592.0** | 537.8 | 10.1 |
| **Earnings before interest and taxes** | **$ 735.9** | $ 666.3 | 10.4% |

## FEE INCOME

Fee income is generated from the management, administration and distribution of 137 Investors Masterseries™, partner and managed asset investment funds. The distribution of insurance and banking products and the provision of securities services provide additional fee income.

Fee income represented 90.5% of gross revenue in 2005, compared with 89.8% in 2004. Total fee income increased by $120.7 million to $1.2 billion, an increase of 11.2% from 2004. Fee income is driven primarily by the level and composition of assets under management. Assets under management are influenced by three factors: sales, redemptions and investment returns. The changes in assets under management in 2005 compared with 2004 are reflected in Table 7.

For the year ended December 31, 2005, sales of Investors Group mutual funds through its Consultant network were $5.5 billion, an increase of 16.2% from 2004. Mutual fund redemptions totalled $4.7 billion for the same period, an increase of 4.6% from $4.5 billion in 2004. Investors Group's twelve month trailing redemption rate for long-term funds decreased to 8.7% at December 31, 2005 from 9.1% at December 31, 2004, and remains below the corresponding redemption rate of 16.4% for all other members of IFIC. Net sales of Investors Group mutual funds were $778 million in 2005 compared with net sales of $218 million in 2004.

Sales of long-term funds were $4.6 billion in 2005, compared with $3.7 billion in 2004, an increase of 22.9%. Net sales of long-term funds, as reported to IFIC, were $529 million compared to net redemptions of $81 million in 2004. Certain sales of long-term funds in the first quarter of 2004, sourced through Investors Group's Solutions Banking† loan programs, were deposited and held in Investors Canadian Money Market Fund on a one-day basis and then transferred into long-term mutual funds. Including these sales, the sales and net sales of long-term funds for the year ended December 31, 2004 would have been $3.8 billion and $52 million respectively.

Investors Group's mutual fund assets under management were $50.7 billion at December 31, 2005, an increase of $6.2 billion or 13.9% from December 31, 2004. The increase in assets from December 31, 2004 reflects net market appreciation of $5.4 billion and net sales of mutual funds totalling $778 million as discussed above. The increase in assets in the industry for the twelve months ended December 31, 2005 was 14.6%.

TABLE 7: CHANGE IN MUTUAL FUND ASSETS UNDER MANAGEMENT – INVESTORS GROUP

| ($ millions) | 2005 | 2004 | CHANGE |
|---|---|---|---|
| Sales | **$ 5,487.6** | $ 4,722.3 | 16.2% |
| Redemptions | **4,709.8** | 4,504.4 | 4.6 |
| **Net sales** | **777.8** | 217.9 | 257.0 |
| Market and income | **5,413.4** | 3,387.7 | 59.8 |
| Net change in assets | **6,191.2** | 3,605.6 | 71.7 |
| Beginning assets | **44,509.8** | 40,904.2 | 8.8 |
| **Ending assets** | **$ 50,701.0** | $ 44,509.8 | 13.9% |
| **Consists of:** | | | |
| Investors Masterseries funds | **$ 43,657.6** | $ 38,570.2 | 13.2% |
| IG Mackenzie partner funds | **2,144.2** | 1,696.8 | 26.4 |
| Partner funds | **4,385.1** | 3,805.4 | 15.2 |
| *i*Profile funds | **514.1** | 437.4 | 17.5 |
| | **$ 50,701.0** | $ 44,509.8 | 13.9% |
| **Average daily assets** | **$ 47,137.9** | $ 42,493.4 | 10.9% |

Investors Group earns management fees for investment management services provided to its mutual funds. In 2005, management fee income increased by $90.7 million to $921.0 million reflecting the increase of 10.9% in average daily mutual fund assets in 2005 compared with 2004. Management fee income represents 195 basis points of average mutual funds assets in 2005, unchanged from 2004.

Investors Group earns administration fees for providing:

- Administrative services to its mutual funds through certain of its subsidiaries.
- Trusteeship services to its mutual funds through Investors Group Trust Co. Ltd.

Administration fees totalled $166.7 million in 2005, up 6.7% from $156.3 million in 2004. Increases in trustee fees and other service fees increased by $9.2 million in 2005 and resulted from growth in average mutual fund assets in 2005 compared to 2004. Fees charged to the mutual funds for administrative services increased $0.6 million due to increases in related non-commission expenses.

Distribution fees are earned from:

- Redemption fees on mutual funds sold with a back-end load feature. In 2003, Investors Group revised redemption fee rates on mutual funds sold subject to a deferred sales charge. Fees charged range from 5.5% in the first year reducing to nil after seven years. Previously, redemption fee rates ranged from 3.0% in the first year reducing to nil after six years.
- Distribution of insurance products through I.G. Insurance Services Inc.
- Securities services through Investors Group Securities Inc.
- Banking services through Solutions Banking†, an arrangement with the National Bank of Canada.

Distribution fee income of $113.8 million in 2005 increased by 20.8% from $94.2 million in 2004. Distribution fee revenue from securities, insurance and banking operations totalled $69.1 million, an increase of $15.5 million over 2004. The increase is due primarily to higher fee income related to insurance operations arising from both the increase in premium sales and the restructuring of the Company's distribution agreements. Redemption fee income of $31.3 million in 2005 increased by $2.2 million due to both higher redemptions subject to deferred sales charges in 2005 compared to 2004 and the impact of the industry standard deferred sales charge schedule which was introduced in 2003.

## NET INVESTMENT INCOME AND OTHER

Net investment income and other includes interest and dividends earned on cash and cash equivalents, securities and mortgage loans. It also includes gains and losses on the sale of securities, Investors Group's share of earnings of Great-West Lifeco Inc. (GWL), as well as income related to mortgage banking activities. Investors Group measures net investment income as the difference between investment income and interest expense. Interest expense includes interest on deposit liabilities, certificates and debt incurred to finance its investment in GWL.

Net investment income and other totalled $126.4 million in 2005, an increase of $3.1 million or 2.5% from $123.3 million in 2004 due to increases in gains on the sale of securities and increases in Investors Group's share of GWL's earnings offset in part by a decrease in revenues related to mortgage banking activities. Increases in other income included the recovery of prior years' commodity taxes paid and a reduction in provisions established for the exit of certain activities.

## OPERATING EXPENSES

Investors Group incurs commission expense in connection with the distribution of its financial services and products, particularly its mutual funds. Commissions are paid on the sale of these products and will fluctuate with the level of sales. Commission expense was $148.0 million in 2005, an increase of $39.2 million from $108.8 million in 2004. The increase in commission expense was due to:

- Increase in amortization of commissions totalling $25.1 million in 2005 related to prior year sales. This increase reflects the impact from the change in estimate, effective April 1, 2001, which increased the term of amortization on sales commissions to 72 months.
- Increase in amortization of commissions of $2.2 million related to higher commission payments in 2005 compared with 2004. The increase in commission payments results from higher mutual fund sales.
- Increases of $11.9 million in other compensation related to mutual fund operations, insurance, mortgage and banking products. Other compensation expense in 2004 included a reduction of $6.5 million due to a change in estimate related to mutual fund operations.

The asset retention bonus (ARB) and premium (ARP) expenses, which are based on the level of assets under management, are comprised of the following:

- ARB which is paid monthly and is based on the value of assets under management. ARB expense increased by $17.2 million in 2005 primarily as a result of the increase in assets under management.
- Asset retention premium (ARP) which is a deferred component of compensation designed to promote Consultant retention. The ARP, which is related to assets under management at each year-end, increased by $6.1 million to $22.4 million.

Non-commission expenses include: costs incurred by Investors Group in the support of its Consultant network; the administration, marketing and management of its mutual funds and other products; as well as all other expenses in the operation of its business.

Non-commission expense totalled $265.5 million in 2005 compared with $273.8 million in 2004, a decrease of $8.3 million or 3.0%. Decreases in expenses were primarily due to:

- Unitholder compensation of $28.8 million recorded in the fourth quarter of 2004 as discussed earlier.
- A reduction in expenses of $3.5 million arising from a change in estimate related to client claims settlements recorded in the fourth quarter of 2005.
- A reduction in expenses of $1.7 million arising from a change in estimate related to credit losses on Consultant financing programs recorded in the first quarter of 2005.

Decreases in expenses were offset by:

- Increases in Consultant Network support costs as a result of increased activity levels.
- Increases in expenses related to the administration of Investors Group's mutual funds.
- Increases in amortization of capital expenditures related to the single shareholder system. Investors Group and Mackenzie merged their shareholder systems in November 2003, while preserving the integrity and privacy of their respective client bases.

Non-commission expense of $273.8 million in 2004 also included a reduction of $3.7 million recorded in the third quarter of 2004 which represented a portion of the general allowance for credit losses. This reduction of a portion of the general allowance resulted from the periodic review of the credit quality of Investors Group's mortgage portfolio and the adequacy of the related general allowance.

Investors Group continues to benefit from the impact of synergies related to the transition work completed with Mackenzie. In addition, management continues to focus on both control of discretionary expenses and expense reductions beyond the opportunities created by the transition activities.

# Mackenzie
# Review of the Business

Founded in 1967, Mackenzie is recognized as one of Canada's premier investment managers. Mackenzie has established and continues to build strong relationships with independent financial advisors, providing a diversified distribution network for its services and products. Under the Mackenzie master brand, the company deploys a sub-branding strategy that includes: Cundill, Ivy, Maxxum, Sentinel*, Select Managers* and Universal. Mackenzie also provides asset allocation and managed product investment solutions through the Keystone and Symmetry sub-brands.

## ASSET MANAGEMENT OPERATIONS

Mackenzie's mutual fund assets under management were $41.6 billion at December 31, 2005, an increase of $4.3 billion or 11.5% from $37.3 billion as at December 31, 2004. Mackenzie's total assets under management at December 31, 2005 were $49.9 billion, an increase of $7.6 billion or 17.7% from $42.3 billion at December 31, 2004. The changes in assets under management are summarized in Table 8.

In 2005, gross sales of Mackenzie's mutual funds were $8.1 billion, an increase of 19.0% from $6.8 billion in 2004. Redemptions of mutual funds in the current year were $6.9 billion as compared to redemptions of $6.0 billion in 2004. Net sales of mutual funds during 2005 were $1.17 billion, as compared to net sales of $795 million last year. Net sales of long-term funds were $1.03 billion in 2005, as compared to net sales of long-term funds of $819 million in 2004.

As at December 31, 2005, Mackenzie's twelve month trailing redemption rate for long-term funds was 14.8% as compared to 13.8% last year. One of the factors contributing to this is the increase in the proportion of Mackenzie's mutual fund units no longer subject to a redemption fee. The twelve month trailing redemption rate for long-term funds for all other members of IFIC increased to 15.7% at December 31, 2005 from 14.8% last year.

During 2005, investment returns generated for Mackenzie unitholders resulted in mutual fund assets increasing by $3.1 billion as compared to an increase of $2.7 billion in 2004.

Mackenzie also provides investment management services to institutional accounts. The assets in these accounts as at December 31, 2005 were $8.1 billion, a 64.1% increase from $4.9 billion last year. As well, Mackenzie's structured products totalled $203 million as at December 31, 2005, an increase of $74 million as compared to December 31, 2004.

TABLE 8: CHANGES IN ASSETS UNDER MANAGEMENT – MACKENZIE

| *($ millions)* | 2005 | 2004 | CHANGE |
|---|---|---|---|
| **Mutual Funds** | | | |
| Sales | **$ 8,074.8** | $ 6,786.7 | 19.0% |
| Redemptions | **6,900.2** | 5,991.4 | 15.2 |
| **Net sales** | **1,174.6** | 795.3 | 47.7 |
| Market and income | **3,119.2** | 2,733.0 | 14.1 |
| Net change in assets | **4,293.8** | 3,528.3 | 21.7 |
| Beginning assets | **37,298.2** | 33,769.9 | 10.4 |
| **Ending assets** | **41,592.0** | 37,298.2 | 11.5 |
| **Institutional Accounts** | | | |
| Related parties and Investors Group | **4,066.9** | 3,392.3 | 19.9 |
| Other | **3,991.5** | 1,518.5 | 162.9 |
| | **8,058.4** | 4,910.8 | 64.1 |
| **Structured Products** | **202.5** | 129.0 | 57.0 |
| **Total** | **$ 49,852.9** | $ 42,338.0 | 17.7% |
| **Average daily mutual fund assets** | **$ 38,940.6** | $ 35,427.8 | 9.9% |

### Mutual Funds

At December 31, 2005, 55.2% of Mackenzie's mutual fund assets measured by Morningstar† fund ranking service had four or five star ratings and 90.7% had a rating of three stars or better. This compares to 69% and 87% respectively at December 31, 2004, and to the Morningstar† universe of 45.6% for four and five star and 86.6% for three stars or better as at December 31, 2005.

Mackenzie's Cundill Funds continued their strong performance in 2005. Three of Cundill's five rated funds earned the five-star rating offered by Morningstar†. Mackenzie Cundill Value Fund was among the top performing global equity mutual funds available to Canadian investors and was the top selling global equity fund in Canada during 2005. This fund ended the year with $4.3 billion in assets. Mackenzie Cundill Recovery Fund received recognition as best Global Equity Fund at the 2005 Canadian Investment Awards, one of two specialty awards garnered by Mackenzie.

Mackenzie Universal Canadian Resource Fund also received an award at the Canadian Investment Awards, as best Natural Resources Equity Fund. Through a sub-advisory relationship, U.S. retail investors are drawing upon Mackenzie's knowledge of global natural resources investing via U.S. based Waddell & Reed's Ivy Global Natural Resources Fund. The fund experienced strong sales with assets growing to $2.9 billion in 2005 from $1.1 billion last year.

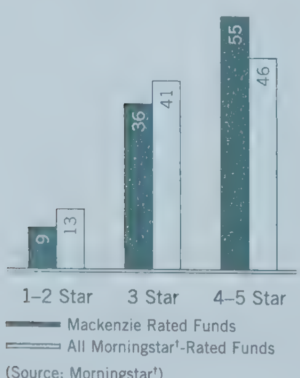
While the Ivy funds experienced net redemptions in 2005 they attracted more than $1.0 billion in new sales. The Ivy team builds diversified portfolios of businesses that exhibit the characteristics of conservative growth purchased at reasonable prices. Currency is not hedged, so that the Ivy funds offer Canadian investors diversification not only in terms of foreign businesses, but also in terms of foreign currencies. Canadian equity market advances during 2005 were largely influenced by increases in the energy and natural resource sectors, sectors in which the Ivy funds did not have significant holdings.

In addition to funds in the Cundill fund family, a broad cross section of funds from Mackenzie's other fund families, including Mackenzie Select Managers Japan Capital Class, Mackenzie Sentinel Corporate Bond Fund, Mackenzie Universal U.S. Growth Leaders Fund and Mackenzie Maxxum Canadian Equity Growth Fund, were among the performance leaders in their respective categories.

**Morningstar† Ratings – Mackenzie**

As at December 31, 2005

*(% of assets)*




(Source: Morningstar†)

## PRODUCT DEVELOPMENT, SERVICE AND POSITIONING

Investor demand for income was strong during 2005. With interest rates remaining low, many investors looked to mutual funds and other investment products to enhance income yields. In addition to the existing suite of income-producing investments, two new products specifically designed to provide steady cash flow and address the retirement needs of an aging population were introduced in 2005. In July, the Mackenzie Maxxum Pension Fund was renamed Mackenzie Maxxum Monthly Income Fund and its mandate broadened to include higher yielding investments such as corporate bonds and income trusts in addition to equities and government bonds. Mackenzie Maxxum Monthly Income Fund offers capital appreciation potential while paying monthly distributions of approximately 5% a year.

Income trusts, with their ability to pay distributions often with yields higher than government bonds or common and preferred share dividends, continued to attract the attention of investors. To combine the higher income generating characteristics of income trusts with the benefits of professional active management, Mackenzie Sentinel Income Trust Fund was launched in December 2005. The fund invests in income trusts and pays variable monthly distributions.

Although Canadian investors as a group favoured Canadian equity funds over foreign equity funds during 2005, Mackenzie had strong asset growth in the foreign category. The Mackenzie Cundill Value Fund, a foreign equity fund, recorded $2.2 billion in asset growth during the year. Mackenzie increased its choice in the global equity category in October by broadening the mandate of an existing fund, Mackenzie Universal Financial Services Capital Class, and renaming it Mackenzie Maxxum Global Explorer Capital Class. With the addition of this fund to the Maxxum line-up, each Mackenzie fund family now offers investors and advisors a global choice.

Symmetry, Mackenzie's multi-manager pooled wrap program, had strong growth during the year, with assets increasing 72% to total $498 million as of December 31, 2005. Symmetry combines strategic asset allocation with input from a client's financial advisor to provide a level of customization not available with most competitive asset allocation programs.

The Mackenzie Structured Products Group (MSP) continues to create innovative, tax efficient products such as MSP* ArMADA Protected Deposit Notes†. Issued in November, in partnership with Bank of Montreal, these Notes provide principal protection at maturity as well as income and growth potential through exposure to Mackenzie Maxxum Dividend Fund. Two versions were offered to provide investors with unique tax planning opportunities: MSP* ArMADA Protected Deposit Notes†, Maxxum* Yield Class†, Series 1 (Regular Notes) and MSP* ArMADA Protected Deposit Notes†, Maxxum* Yield R.O.C. Class†, Series 1 (ROC Notes). Any semi-annual distributions on the Regular Notes will be treated as interest income, while distributions on the ROC Notes should be characterized as return of capital. Total sales of the two Deposit Notes exceeded $30 million.

TABLE 9: MUTUAL FUND ASSETS UNDER MANAGEMENT BY INVESTMENT OBJECTIVE – MACKENZIE

| *($ millions)* | 2005 | 2004 | CHANGE |
|---|---|---|---|
| **Equity** | | | |
| Domestic | **$ 16,463.7** | $ 14,876.5 | 10.7% |
| Foreign | **11,779.8** | 10,539.8 | 11.8 |
| | **28,243.5** | 25,416.3 | 11.1 |
| **Balanced** | | | |
| Domestic | **8,847.0** | 7,796.1 | 13.5 |
| Foreign | **731.7** | 533.1 | 37.3 |
| | **9,578.7** | 8,329.2 | 15.0 |
| **Fixed Income** | | | |
| Domestic | **2,193.2** | 1,883.3 | 16.5 |
| Foreign | **112.3** | 164.8 | (31.9) |
| | **2,305.5** | 2,048.1 | 12.6 |
| **Money Market** | | | |
| Domestic | **1,408.2** | 1,453.2 | (3.1) |
| Foreign | **56.1** | 51.4 | 9.1 |
| | **1,464.3** | 1,504.6 | (2.7) |
| **Total** | **$ 41,592.0** | $ 37,298.2 | 11.5% |

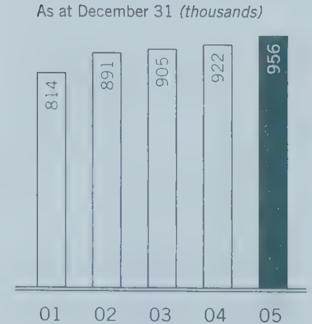
Mackenzie continues to streamline its product line to provide focused investment mandates, avoid duplication, create efficiencies, and enhance the value provided to investors. During 2005, six funds, inclusive of clone funds, were merged into other funds with similar mandates to create better economies of scale for Mackenzie investors. The clone funds, which were foreign funds that were 100% eligible for registered plans, were no longer necessary upon the removal of federal foreign content restrictions.

During the year, Mackenzie also expanded its institutional and partner relationships. By adding three Mackenzie mandates to one firm's segregated fund program, this resulted in an initial one-time flow of $500 million and also in additional net sales of over $60 million during the year. Mackenzie now plays a growing investment role in many fund-of-fund programs throughout its distribution channels. Today the Mackenzie name is prominent as part of the offering at major chartered banks, non-related insurance companies and in the offerings of Investors Group, Investment Planning Counsel and other members of the Power Financial Group of Companies.

In March 2005, Mackenzie introduced a low load deferred sales charge purchase option on all its fund offerings. Mackenzie's low load option, which has a three year redemption schedule, provides advisors and investors greater flexibility in their financial planning. Gross sales of funds under this purchase option were $270 million in 2005.

**MRS Group Investor Accounts Under Administration**

As at December 31 *(thousands)*




## DEALER, TRUST AND ADMINISTRATION SERVICES

Mackenzie continues to provide products and services to dealers, financial advisors and their respective clients through its subsidiaries. M.R.S. Trust Company, a federally regulated trust company, provides loan and deposit products to financial advisors for their clients. M.R.S. Inc. is the largest mutual fund carrying dealer in Canada and is a member of the Mutual Fund Dealers Association (MFDA) of Canada. M.R.S. Securities Services Inc. is a carrier for investment dealers and a discount broker for referred investors and an Investment Dealers Association member firm. M.R.S. Correspondent Corporation is an Autorité des marchés financiers regulated dealer operating in Quebec. Winfund Software Corp. is one of the largest providers of dealer and advisor software for distributors of mutual funds in Canada.

# Review of Segment Operating Results

Mackenzie's earnings from operations before interest and taxes for the year ended December 31, 2005 compared with 2004 are presented in Table 10.

TABLE 10: OPERATING RESULTS – MACKENZIE

| ($ millions) | 2005 | 2004 | CHANGE |
|---|---|---|---|
| **Fee and net investment income** | | | |
| Management | **$ 691.3** | $ 645.5 | 7.1% |
| Administration | **138.0** | 140.5 | (1.8) |
| Distribution | **34.0** | 35.6 | (4.5) |
| Net investment income and other | **19.0** | 15.8 | 20.3 |
| | **882.3** | 837.4 | 5.4 |
| **Operating expenses** | | | |
| Commissions | **154.3** | 150.3 | 2.7 |
| Trailer fees | **185.6** | 169.9 | 9.2 |
| Non-commission | **258.9** | 255.6 | 1.3 |
| | **598.8** | 575.8 | 4.0 |
| **Earnings before interest and taxes** | **$ 283.5** | $ 261.6 | 8.4% |

### FEE AND NET INVESTMENT INCOME

The majority of Mackenzie's revenues are earned from the management services it provides as fund manager to the Mackenzie mutual funds. In addition to Mackenzie's retail priced mutual funds, it also offers various series of these funds with lower management fees that are designed for fee-based programs, large accounts and third party investment programs offered by banks, insurance companies and other investment dealers. In return for lower management fees, depending on the specific series of the mutual fund, Mackenzie is not required to pay trailer fees or selling commissions on these funds.

Management fees were $691.3 million for the year ended December 31, 2005, an increase of $45.8 million or 7.1% from $645.5 million in 2004. The increase in management fees was attributed to a 9.9% increase in Mackenzie's average mutual fund assets under management from $35.4 billion in 2004 to $38.9 billion in the current year and the growth in its institutional accounts. The overall increase in management fees was less than the growth in assets under management because of the shift in asset mix from retail priced funds to non-retail priced funds, which results in a lower effective management fee rate.

Administration fees were $138.0 million for the year ended December 31, 2005, a decrease of $2.5 million from $140.5 million in 2004. Administration fees include the following main components:

- Operating expenses recovered from Mackenzie mutual funds and structured products.
- Fees earned from administering labour sponsored funds.
- Asset allocation fees.
- RSP clone fund counterparty revenue.
- Trustee and other administration fees generated from the MRS Group account administration business.

On June 29, 2005, tax legislation was enacted which eliminated the foreign property rule applicable to registered plans. As a result of this change in tax legislation, RSP clone funds were no longer necessary to achieve an appropriate level of foreign content in registered plans. Accordingly, Mackenzie's and Investor Group's RSP clone funds were terminated on July 8, 2005 and September 23, 2005 respectively and investors in these funds received the equivalent value of their investments in the corresponding underlying mutual funds. Prior to this change in tax legislation being enacted, M.R.S. Trust Company earned a fee for acting as the counterparty to the forward contracts that certain Mackenzie and Investors Group RSP clone funds purchased in

order to create their registered plan eligibility. Accordingly, M.R.S. Trust will no longer have clone fund counterparty revenue as a source of administration fees.

During the second quarter, the VenGrowth labour sponsored funds terminated their administration agreements with Mackenzie. Mackenzie administered the VenGrowth Funds until November 18, 2005, at which time the completion of the transition to the successor administrator was complete.

Mackenzie earns distribution fee income upon redemption of mutual fund units sold on a deferred sales charge basis. Fees charged range from 5.5% in the first year and decrease to zero after seven years. Distribution fee income in the year ended December 31, 2005 was $34.0 million, a decrease of $1.6 million from $35.6 million last year. This decrease was due to a period over period decline in the absolute level of redemptions of units that are subject to a redemption fee.

The most significant component of net investment income and other is the net interest margin from M.R.S. Trust Company's lending and deposit operations. Net investment income in 2005 was $19.0 million, an increase of $3.2 million as compared to $15.8 million in 2004. This increase is due to changes in the composition of M.R.S. Trust's lending and deposit portfolios and the widening of the net interest margin.

## OPERATING EXPENSES

Mackenzie's operating expenses were $598.8 million for the year ended December 31, 2005, an increase of $23.0 million or 4.0% from $575.8 million last year.

Mackenzie pays selling commissions to the dealers that sell its mutual funds on a deferred sales charge basis. Commission expense, which represents the amortization of deferred selling commissions, was $154.3 million in 2005 as compared to $150.3 million in the previous year. Mackenzie amortizes deferred selling commissions over a maximum period of seven years from the date of original purchase of the applicable units.

Trailer fees are paid to dealers to compensate them for providing ongoing support to investors in Mackenzie's mutual funds. Trailer fees are calculated as a percentage of assets under management and vary depending on the fund type and whether the fund was purchased on a front-end basis or on a deferred sales charge basis. In addition, trailer fees are not paid on certain non-retail series of mutual funds and institutional assets.

Trailer fees paid to dealers were $185.6 million in the current year, an increase of $15.7 million or 9.2% from $169.9 million in the previous year. The increase in trailer fees is due to the year over year growth in average mutual fund assets under management, offset partially by the decrease in the average trailer fee rate. Trailer fees as a percentage of average mutual fund assets under management decreased to 0.476% in the current year as compared to 0.479% last year. The decline in the average trailer fee rate is attributed to an increase in the proportion of Mackenzie's mutual fund assets that are in non-retail series of Mackenzie mutual funds, for which Mackenzie does not pay trailer fees thereon.

Non-commission expenses increased $3.3 million or 1.3% to $258.9 million in the current year from $255.6 million last year. A component of the non-commission expenses incurred by Mackenzie is related to the administration of its mutual funds. These expenses, which are recovered from Mackenzie's mutual funds, were relatively unchanged on a year-over-year basis. The remaining variance in non-commission expenses relates to costs incurred by Mackenzie in the marketing and management of its mutual funds and in the MRS Group's account administration and trust company businesses. Mackenzie's overall cost structure continued to benefit from synergies and efficiencies realized from the transition work with Investors Group, which allowed it to maintain its non-commission expenses at a level that is relatively consistent with 2004 despite a significant increase in assets under management.

# IGM Financial Inc.
# Consolidated Financial Position

IGM Financial's on-balance sheet assets totalled $6.81 billion at December 31, 2005, compared to $6.47 billion at December 31, 2004.

## SECURITIES

The Company's holdings of securities were $178.0 million at December 31, 2005, an increase of $51.7 million or 40.9% from 2004. The fair value of the Company's portfolio at December 31, 2005 exceeded cost by $123.7 million compared with $127.8 million at December 31, 2004.

### Market Risk Management

IGM Financial continually strives to ensure that its portfolio holdings are of the highest quality. To manage the market risk associated with the securities portfolio, a Senior Management Investment Committee monitors the Company's portfolio and ensures that all securities activities are in adherence to the Company's Investment Policy. This Committee regularly reviews the portfolio to identify holdings where there has been an other than temporary decline in value. In these circumstances, the carrying amount of the security is written down to recognize the loss.

## LOANS

Loans, including mortgages and personal loans, increased by $16.3 million to $513.0 million at December 31, 2005 and represent 7.5% of total assets compared to 7.7% in 2004. Mortgages and personal loans related to the Company's intermediary activities increased by $24.4 million, offset by a decrease of $18.1 million in residential loans related to the Company's mortgage banking operations. In addition, the general allowance for credit losses decreased by $10.0 million during 2005 as discussed in the Credit Risk Management section below.

Residential mortgage loans, originated by Investors Group, are funded primarily by the Investors Mortgage Fund and sales to third parties on a fully serviced basis. Mortgage loans sourced through mortgage brokers and personal loans sourced through independent financial advisors relate to M.R.S. Trust's intermediary activities. M.R.S. Trust also sells mortgages and personal loans to third parties on a fully serviced basis through its securitization activities.

### Credit Risk Management

At December 31, 2005, impaired loans totalled $1.0 million compared to $0.4 million at December 31, 2004, and represented 0.19% of the total loan portfolio, compared with 0.07% at December 31, 2004. The general allowance for credit losses was $8.2 million at December 31, 2005 compared to $17.8 million in 2004. The Company monitors its credit risk management policies continuously to evaluate their effectiveness. The Company also periodically reviews the credit quality of the loan portfolios and the adequacy of the related general allowance. The Company reduced its general allowance by $10.0 million in 2005 due to the elimination of a provision established as a result of a previous acquisition. The reversal was reported in Net Investment Income and Other in the Corporate and Other segment. The Company also reduced the general allowance by $3.7 million in 2004, which was reflected as a reduction of non-commission expenses in the Investors Group segment. These reductions reflect changes in the size and composition of the portfolios, improving default trends, and continued improvement in underwriting and default management policies and procedures. These policies and practices have resulted in the effective risk management of impaired loans.

During 2005, management continued its policy of maintaining adequate allowances to absorb all known and foreseeable credit-related losses in the mortgage, loan, and real estate portfolios. The allowance for credit losses of $8.2 million at December 31, 2005 exceeded impaired mortgages and loans by $7.2 million.

As at December 31, 2005:

- The mortgage portfolios were 97% residential and 68% insured.
- The mortgage portfolios were in excess of 80% owner occupied.
- Mortgages in the portfolios were geographically diverse.
- Strict credit risk management policies continue to be applied.

The characteristics of the mortgage portfolios at December 31, 2005 described above are consistent with prior years.

# Consolidated Liquidity and Capital Resources

## LIQUIDITY

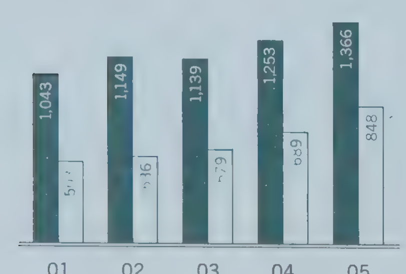
IGM Financial's operating liquidity is required for:

- Financing ongoing operations, including the funding of selling commissions.
- Temporarily financing mortgages in its mortgage banking facility.
- Meeting regular interest and dividend obligations related to long-term debt and preferred shares.
- Payment of quarterly dividends on its outstanding common shares.
- Maintaining liquidity requirements for regulated entities.
- Financing common share repurchases related to the Company's normal course issuer bid.

A key liquidity requirement for the Company is the funding of commissions paid on the sale of mutual funds. Commissions paid continue to be fully funded through management fee revenue earned on mutual fund assets under management and through additional sales charges levied in connection with the early redemption of mutual funds.

The Company also maintains sufficient liquidity to fund and temporarily hold mortgages. Through its mortgage banking operations, most of the mortgages are sold to Investors Mortgage Fund or third parties on a fully serviced basis. In order to effectively manage its overall liquidity, the Company is active in both the whole loan sale and securitization markets. During 2005, whole loan sales to third parties totalled $372.4 million and proceeds from securitizations were $251.0 million, compared with $712.1 million and $207.1 million respectively in 2004.

**Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**
For the financial year *($ millions)*




EBITDA – 2001 excludes Mackenzie restructuring costs. 2003 excludes dilution gain and restructuring reversal related to Mackenzie. 2004 excludes unitholder compensation costs.

Cash flow available from operations before payment of commissions.

IGM Financial continues to generate significant cash flows from its operations. Earnings before interest, taxes, depreciation and amortization (EBITDA) totalled $1,365.5 million for 2005 compared to $1,253.1 million in 2004, and represents an increase of 9.0%.

In addition to IGM Financial's current balance of cash and cash equivalents in excess of the operating liquidity requirements described above, other potential sources of liquidity include the Company's portfolio of securities and lines of credit. The Company maintains operating lines of credit totalling $210 million with various Schedule A Canadian chartered banks, of which $50 million represented committed lines of credit.

IGM Financial's demonstrated ability to raise funds in domestic debt and equity markets is also a source of liquidity.

### Cash Flows

Table 11 – Cash Flows is a summary of the Consolidated Statements of Cash Flows which form part of the Consolidated Financial Statements for the year ended December 31, 2005.

Operating activities, before payment of commissions, generated $941.5 million during the year ended December 31, 2005, as compared to $769.7 million in 2004. Cash commissions paid were $337.4 million in 2005 compared with $305.8 million in 2004 and reflect the increase in mutual fund sales over 2004 levels.

Financing activities during the year ended December 31, 2005 compared to the same period in 2004 related primarily to:

- A net decrease of $18.2 million in deposits and certificates in 2005 compared to $39.1 million in 2004 related to decreases in the term deposit levels offset by an increase in demand deposits.
- The payment of regular common share dividends which increased to $341.3 million in 2005 from $292.1 million in 2004 as a result of increases in the Company's common share dividends.
- The purchase of 584,700 common shares in 2005 under IGM Financial's normal course issuer bid at a cost of $23.3 million. In 2004, 756,100 shares were purchased at a cost of $26.9 million.

Other activity in 2004 related to the repayment of the remaining $175 million of Floating Bankers' Acceptance in the fourth quarter of 2004 as well as the repayment of long-term debt assumed on the acquisition of Investment Planning Counsel in May 2004.

TABLE 11: CASH FLOWS

| ($ millions) | 2005 | 2004 | CHANGE |
|---|---|---|---|
| Operating activities | | | |
| Before payment of commissions | $ 941.5 | $ 769.7 | 22.3% |
| Commissions paid | (337.4) | (305.8) | (10.3) |
| Net of commissions paid | 604.1 | 463.9 | 30.2 |
| Financing activities | (375.4) | (548.8) | 31.6 |
| Investing activities | (25.6) | (19.4) | (32.0) |
| **Increase (decrease) in cash and cash equivalents** | 203.1 | (104.3) | N/M |
| Cash and cash equivalents, beginning of year | 865.0 | 969.3 | (10.8) |
| **Cash and cash equivalents, end of year** | $ 1,068.1 | $ 865.0 | 23.5% |

Investing activities during the year ended December 31, 2005 compared to the same period in 2004 related primarily to:

- Securities purchases of $102.2 million and securities sales with proceeds of $95.9 million in 2005 compared with $61.7 million and $78.5 million respectively in 2004.
- Increases in residential mortgages related to the Company's mortgage banking operations and personal loans related to the Company's intermediary operations of $258.0 million compared to an increase of $167.0 million in 2004 offset by securitizations of $251.0 million in 2005 and $207.1 million in 2004.

Other activity in 2004 related to the acquisition in May 2004 of Investment Planning Counsel, net of cash and cash equivalents assumed, which totalled $62.6 million.

## INTEREST RATE RISK

The objective of the Company's asset liability management is to control interest rate risk by actively managing its interest rate exposure within limits established by the Investment Committee of the Board of Directors.

The Company manages the re-pricing characteristics of its consolidated assets and liabilities, and as required by regulation, manages interest rate risk on the assets and liabilities of the deposit operations of M.R.S. Trust and Investors Group Trust Co. Ltd. As at December 31, 2005, the total gap between one-year deposit assets and liabilities was well within the Company's stated guidelines.

### Contractual Obligations

TABLE 12: CONTRACTUAL OBLIGATIONS

| | PAYMENTS DUE BY PERIOD | | | | |
|---|---|---|---|---|---|
| As at December 31, 2005 *($ millions)* | TOTAL | LESS THAN 1 YEAR | 1–3 YEARS | 4–5 YEARS | AFTER 5 YEARS |
| Long-term debt(1) | $ 1,225.0 | $ 25.0 | $ – | $ – | $ 1,200.0 |
| Operating leases(2) | 150.9 | 36.6 | 58.6 | 34.3 | 21.4 |
| **Total contractual obligations** | $ 1,375.9 | $ 61.6 | $ 58.6 | $ 34.3 | $ 1,221.4 |

*(1) Refer to Note 12 of the Consolidated Financial Statements.*

*(2) Includes office space and equipment used in the normal course of business. Lease payments are charged to earnings in the period of use.*

## LIQUIDITY REQUIREMENTS

Liquidity requirements for M.R.S. Trust and Investors Group Trust Co. Ltd., which engage in financial intermediary activities, are based on investment policies approved by the investment committees of their respective Boards of Directors. As at December 31, 2005, liquidity for both companies was in compliance with these policies.

## CAPITAL RESOURCES

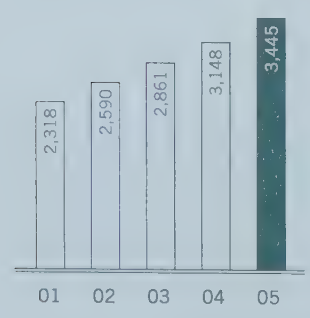
Shareholders' equity increased to $3.45 billion as at December 31, 2005 from $3.15 billion at December 31, 2004. Long-term debt was $1.23 billion at December 31, 2005, unchanged from 2004 levels and is detailed in Note 12 to the Consolidated Financial Statements.

To achieve its strategic objectives, the Company requires a strong capital base. The Company's capital management objective is to preserve the quality of its financial position by establishing and maintaining a solid capital base and a strong balance sheet.

Independent reviews confirm the continuing quality of IGM Financial's balance sheet and the strength of its operations. During 2005, both Standard & Poors (S&P) and the Dominion Bond Rating Service (DBRS) reviewed their ratings of the Company's senior debt and liabilities. The senior debt and liabilities were rated "A" with a stable outlook by both S&P and DBRS.

Management is confident that the Company's current capital resources are adequate and can support its activities during 2006.

**Shareholders' Equity**
As at December 31 *($ millions)*




## OFF-BALANCE SHEET ARRANGEMENTS

- *Securitizations* – The Company's liquidity management practices include the periodic transfers of mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also transfers NHA-insured loans through the issuance of mortgage-backed securities. During 2005, the Company entered into securitization transactions through its mortgage banking operation with proceeds of $251.0 million compared with $207.1 million in 2004. Securitized loans serviced at December 31, 2005 totalled $558.8 million compared with $593.2 million in 2004. The fair-value of the Company's retained interest was $15.5 million at December 31, 2005 and $19.7 million in 2004. Additional information related to the Company's securitization activities can be found in Notes 1 and 4 of the Consolidated Financial Statements.
- *Derivative Contracts* – The Company utilizes derivative financial instruments in the management of interest rate and equity market exposures. The Company does not utilize derivative instruments for speculative purposes. The Company enters into interest rate swap arrangements in order to reduce the impact of fluctuating interest rates on its mortgage banking activities and asset liability management. The Company also manages its exposure to market risk on its corporate securities portfolio by using a variety of derivative instruments including options and forward contracts. All derivative contracts are negotiated in the over-the-counter market with Schedule I and Schedule II bank counterparties on a diversified basis. Additional information related to the Company's utilization of derivative contracts can be found in Notes 1 and 15 of the Consolidated Financial Statements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Table 13 presents the carrying value and the fair value of on and off-balance sheet financial instruments.

Fair value is determined using the following methods and assumptions:

- The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, accounts and other receivables, and other financial liabilities.
- Securities are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used.
- Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk.
- Deposits and certificates are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.
- Long-term debt is determined by reference to current market prices for debentures and notes payable with similar terms and risks.
- Derivative financial instruments' fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

Details of each component of the financial instruments are contained in the various related notes to the Consolidated Financial Statements.

A description of the material risks and management of the risks associated with the various financial instruments are contained in the Consolidated Financial Position, Consolidated Liquidity and Capital Resources, and Off-balance Sheet Arrangements sections in the MD&A.

TABLE 13: FINANCIAL INSTRUMENTS

| | 2005 | | 2004 | |
|---|---|---|---|---|
| As at December 31 *($ millions)* | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| **Assets** | | | | |
| Cash and cash equivalents | **$ 1,068.1** | **$ 1,068.1** | $ 865.0 | $ 865.0 |
| Securities | **178.0** | **301.7** | 126.3 | 254.1 |
| Loans | **513.0** | **512.6** | 496.7 | 499.5 |
| Account and other receivables | **161.2** | **161.2** | 172.6 | 172.6 |
| | **$ 1,920.3** | **$ 2,043.6** | $ 1,660.6 | $ 1,791.2 |
| **Liabilities** | | | | |
| Deposits and certificates | **$ 692.8** | **$ 694.3** | $ 711.0 | $ 717.2 |
| Other financial liabilities | **480.9** | **480.9** | 494.6 | 494.6 |
| Long-term debt | **1,225.0** | **1,450.0** | 1,226.8 | 1,377.5 |
| | **$ 2,398.7** | **$ 2,625.2** | $ 2,432.4 | $ 2,589.3 |
| **Off-balance sheet derivatives** | **$ –** | **$ (28.2)** | $ – | $ (17.7) |

# Outlook

### THE FINANCIAL SERVICES ENVIRONMENT

The financial services industry continues to experience growth and change influenced by:

- Continuing growth of the Canadian economy.
- Shifting demographics as the number of Canadians in their prime savings years continue to increase.
- Regulatory environment changes.
- An evolving competitive landscape.
- Changes in investor attitudes and preferences.

Deregulation, competition and technology have fostered a trend towards financial service providers offering a comprehensive range of products and services in-house. Traditional distinctions between bank branches, full service brokerages, financial planning firms and insurance agent forces are obscured as all of these financial service providers strive to offer comprehensive financial advice implemented through access to a broad product shelf.

The preferred method of retirement planning by Canadians continues to be in the context of a relationship with a financial advisor. Increased investor awareness and sophistication, driven by these advisory relationships, continues to drive a reconfiguration of household balance sheets from short-term financial assets towards longer term financial assets.

Investment funds, which include mutual funds, remain the most popular financial asset class relied upon by Canadians for their retirement savings, and they represent over one-third of Canadian long-term discretionary financial assets. Management believes that investment funds are likely to remain the preferred savings vehicle of Canadians. Investment funds provide investors with the benefits of diversification, professional management, flexibility and convenience, and are available in a broad range of mandates and structures to meet most investor requirements and preferences.

At December 31, 2005, mutual fund industry assets in Canada were $570.0 billion, an increase of 14.6% relative to December 31, 2004. This $72.7 billion increase in industry assets from December 31, 2004 reflected net sales of $23.4 billion, with the remaining $49.3 billion primarily reflecting investment returns generated during the year.

### THE COMPETITIVE LANDSCAPE

IGM Financial and its subsidiaries operate in a highly competitive environment. Investors Group and Investment Planning Counsel compete directly with other retail financial service providers, including other financial planning firms, as well as full service brokerages, banks and insurance companies. Investors Group, Mackenzie and Investment Planning Counsel compete directly with other investment managers for assets under management, and also compete with other asset classes, including stocks, bonds and other passive investment vehicles, for share of the investment assets of Canadians.

Canadian banks remain a dominant force in Canadian retail financial services. The banks distribute financial products and services through their traditional bank branches, as well as through their full service and discount brokerage subsidiaries. Recently, bank branches have increased their emphasis on both financial planning and mutual funds. In addition, each of the big six banks has a mutual fund management subsidiary. Collectively, mutual fund assets of the big six bank-owned mutual fund managers represented 31% of total industry mutual fund assets at December 31, 2005 and accounted for approximately 46% of the industry's long-term mutual fund net sales during 2005.

Mutual fund dealers and other financial planning firms represent a significant distribution channel for mutual funds in Canada. The last five years have been characterized by significant consolidation in this sector of the industry, with many of the larger firms being purchased by mutual fund managers and insurers. Despite this level of consolidation activity, the sector remains fragmented. Management anticipates continuing consolidation in this segment of the industry as smaller participants are acquired by larger organizations.

As a result of this consolidation activity, the Canadian mutual fund management industry is characterized by large, often vertically-integrated, firms. The industry is very concentrated, with the ten largest firms and their subsidiaries representing 78.6% of industry assets at December 31, 2005. Smaller firms primarily represent niche players.

Management believes scale, access to distribution, and a broad product shelf are key competitive success factors in the financial services industry.

## MEETING COMPETITIVE CHALLENGES

Management feels that IGM Financial is well-positioned to meet competitive challenges and capitalize on future opportunities. The Company enjoys several competitive strengths, including:

- Significant economies of scale.
- Significant and diversified distribution with an emphasis on financial advisors.
- Broad product capabilities, leading brands and quality sub-advisory relationships.
- Part of the Power Financial group of companies, which includes Great-West Life, London Life and Canada Life.
- Enduring client relationships and the long-standing heritages and cultures of its subsidiaries.

### Significant Economies of Scale

IGM Financial enjoys a 16.4% share of industry mutual fund assets under management and has nearly double the long-term mutual fund assets of its nearest competitor. This scale provides the Company and its subsidiaries with numerous benefits, including lower unit costs and greater access to capital.

### Broad and Diversified Distribution

In addition to owning two of Canada's largest financial planning organizations, Investors Group and Investment Planning Counsel, IGM Financial has, through Mackenzie, access to distribution through over 30,000 third party advisors. IGM Financial's businesses are all focused on supporting the enduring relationships developed between a client and a financial advisor.

### Broad Product Capabilities

During 2005, as discussed earlier within the segmented results, IGM Financial's subsidiaries continued to develop and launch innovative products and strategic investment planning tools to assist advisors in building optimized portfolios for clients.

### Part of Power Financial Group of Companies

As part of the Power Financial group of companies, IGM Financial benefits through cost savings from shared service arrangements, as well as through increased access to distribution, products and capital.

### Enduring Relationships

IGM Financial enjoys significant advantages as a result of the enduring relationships its advisors enjoy with clients. In addition, the Company's subsidiaries have strong heritages and cultures which are challenging for competitors to replicate.

## THE REGULATORY ENVIRONMENT

IGM Financial is subject to complex and changing legal, taxation and regulatory requirements from the Company's principal regulators including agencies of the federal, provincial and territorial governments in Canada. The members of the Canadian Securities Administrators (CSA) regulate the offering of securities in the provinces and territories. The Company's activities are also regulated by various self-regulatory organizations. Changes in the regulatory framework or failure to comply with any of these laws, rules and regulations could have an adverse financial or reputational effect on the Company.

IGM Financial's core distribution business is regulated by the Mutual Fund Dealers Association (MFDA) of Canada in which the Company's mutual fund dealer subsidiaries are members.

The Company supports regulatory efforts that will protect the interests of clients and preserve the integrity and reputation of the industry and its members.

### Mutual Fund Dealers Association of Canada

Investors Group Financial Services Inc., M.R.S. Inc. and IPC Investment Corporation, the Company's mutual fund dealer subsidiaries, are members of the MFDA. This is the self-regulatory organization for the mutual fund dealer industry in every jurisdiction in Canada except Quebec. On July 1, 2005 the MFDA Investor Protection Corporation began providing coverage to protect eligible customers of MFDA Members on a discretionary basis to prescribed limits if securities, cash and other property held by any such Member are unavailable as a result of the Member's insolvency.

### Harmonization of Securities Rules

The CSA continues to work towards enhancing public confidence in capital markets and streamlining the securities regulatory process. In 2005 the CSA, or certain of its members, enacted new or amended rules relating to audit committees, corporate governance disclosure, and continuous disclosure for mutual funds. New initiatives regarding independent review committees for investment funds and reporting on internal

controls over financial reporting are expected during 2006. Continued harmonization efforts have been centred around efforts of the members of the CSA with respect to projects such as the mutual reliance system, uniform securities legislation and national registration requirements. There have been continuing efforts to improve the national electronic information systems such as SEDI, SEDAR and NRD.

#### Elimination of Foreign Content Restrictions

Tax legislation which eliminated the foreign content restrictions applicable to investments by registered plans in foreign property was enacted into law on June 29, 2005. As a result of this change in tax legislation, the continued existence of RSP clone funds is no longer necessary.

These RSP clone funds were originally created to provide clients having investments made through tax-deferred retirement plans, such as RRSPs and RRIFs, with a means to increase their exposure to foreign markets without exceeding the foreign content limit which existed prior to June 29, 2005. This was achieved because the performance of the RSP clone funds tracked the performance of other foreign equity mutual funds (underlying mutual funds) primarily through the use of forward contracts having returns based upon the performance of the underlying mutual funds, while most of the assets of the RSP clone funds were invested in Canadian short-term deposits.

In early July 2005, Mackenzie's RSP clone funds were terminated and investors in these funds received the equivalent value of their investments in the corresponding underlying mutual funds. During the third quarter, Investors Group and Investment Planning Counsel also terminated their RSP clone funds and investors in these funds received the equivalent value of their investments in the corresponding underlying mutual funds.

Investors in the Mackenzie, Investors Group and Investment Planning Counsel RSP clone funds will benefit from the wind-up of the funds through more efficient administration and a corresponding reduction, and in some cases the elimination, of certain costs and expenses.

### OTHER RISK FACTORS

#### Contingencies

Investors Group and Mackenzie are subject to legal actions, including class actions, arising in the normal course of their business. Three class actions related to alleged market timing trading activity in mutual funds of the companies have been commenced. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

#### Market Risk

Investor confidence continued to grow throughout 2005. This led to significant increases in mutual fund sales and increases in the level of mutual fund assets under management during the year. However, risks related to performance of the equity markets and changes in interest rates can have a significant impact on the level and mix of mutual fund assets under management and sales. In addition, these factors can result in increased redemptions of mutual funds.

##### REDEMPTION RATES

Redemption rates for long-term funds are summarized in Table 14.

IGM Financial provides Consultants and independent financial advisors with a high level of service and support and a broad range of investment products – based on asset classes, countries or regions, and investment management styles. These are key advantages in maintaining strong client relationships and, as a result, the Company has been able to maintain redemption rates that are among the lowest in the industry. One of the contributing factors in the increase in Mackenzie's redemption rate at December 31, 2005 compared with 2004 is the increase in the proportion of Mackenzie's mutual fund units no longer subject to a redemption fee.

The mutual fund industry and financial advisors are committed to educating Canadian investors on the merits of financial planning, diversification and long-term investing. In periods of volatility our Consultants and independent financial advisors play a key role assisting investors to maintain perspective and focus on their long-term objectives.

TABLE 14: TWELVE MONTH TRAILING REDEMPTION RATE FOR LONG-TERM FUNDS

| As at December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| **IGM Financial Inc.** | | | |
| Investors Group | **8.7%** | 9.1% | 10.7% |
| Mackenzie | **14.8%** | 13.8% | 13.0% |
| Investment Planning Counsel(1) | **9.7%** | 8.9% | N/A |
| **Mutual Fund Industry, excluding IGM Financial Inc.(2)** | **16.5%** | 15.5% | 14.3% |

*(1) Reflects Investment Planning Counsel from date of acquisition of May 10, 2004.*

*(2) Excludes Investors Group, Mackenzie and Investment Planning Counsel from date of acquisition.*

**Distribution Risk**

- *Investors Group Consultant Network* – Investors Group derives all of its mutual fund sales through its Consultant network. Investors Group Consultants have regular direct contact with clients which can lead to a strong and personal client relationship based on the client's confidence in that individual Consultant. The market for financial advisors is extremely competitive. The loss of a significant number of key Consultants could lead to the loss of client accounts which could have an adverse effect on Investors Group's results of operations and business prospects. Investors Group is focused on growing its distribution network of Consultants as discussed in the Investors Group Review of the Business section of the MD&A. As at December 31, 2005, the number of Consultants totalled 3,668 compared with 3,496 at December 31, 2004. This represents an increase of 4.9% in the Consultant network in 2005. Investors Group experienced six consecutive quarters of growth resulting in an increase of 14.4% in the Consultant network since June 30, 2004.
- *Mackenzie* – Mackenzie derives substantially all of its mutual fund sales through independent financial advisors. Mackenzie's ability to market its products is highly dependent on access to various distribution channels. These intermediaries generally offer their clients investment products in addition to, and in competition with Mackenzie. The inability to have such access could have a material adverse effect on Mackenzie's operating results and business prospects. However, Mackenzie's portfolio of financial products is recognized as one of the most innovative and complete in the industry. This, combined with strong performance, marketing, educational and service support, has made Mackenzie one of Canada's leading companies serving independent financial advisors. These factors are discussed further in the Mackenzie Review of the Business section of the MD&A.

# Accounting Estimates and Policies

## SUMMARY OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the mutual fund and other financial services industries; others are specific to IGM Financial's businesses and operations. IGM Financial's significant accounting policies are described in detail in Note 1 of the Consolidated Financial Statements.

The major critical accounting estimates and related judgments underlying the Company's financial statements are summarized below. Critical accounting estimates relating to goodwill and intangibles, income taxes and deferred selling commissions relate to both the Investors Group and Mackenzie reportable segments while Employee future benefits applies to the Investors Group reportable segment.

- *Goodwill and intangible assets* – At December 31, 2005, goodwill totalled $2.4 billion and indefinite life intangible assets totalled $877 million as reflected in Note 7 of the Consolidated Financial Statements. Under the Canadian Institute of Chartered Accountants (CICA) Section 3062 – Goodwill and Other Intangible Assets, the Company is required to test the fair value of goodwill and indefinite life intangible assets for impairment at least once a year. The Company performs that evaluation during the second quarter each year. These tests involve the use of estimates and assumptions appropriate in the circumstances. The annual impairment testing was completed for 2005 and management determined that no impairment charge was necessary.
- *Income taxes* –The provision for income taxes is determined on the basis of the anticipated tax treatment of transactions recorded in the Consolidated Statements of Income. The determination of the provision for income taxes requires interpretation of tax legislation in a number of jurisdictions. Tax planning may allow the Company to record lower income taxes in the current year and, as well, income taxes recorded in prior years may be adjusted in the current year to reflect management's best estimates of the overall adequacy of its provisions. Any related tax benefits or changes in management's best estimates are reflected in the provision for income taxes. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. The amount of the future tax asset or liability recorded is based on management's best estimate of the timing of the realization of the assets or liabilities. If our interpretation of tax legislation differs from that of the tax authorities or if timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods. Additional information related to income taxes is included in the Summary of Consolidated Operating Results and in Note 11 of the Consolidated Financial Statements.
- *Employee Future Benefits* – Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for the determination of accrued benefit obligations. These estimates are discussed in Note 10 of the Consolidated Financial Statements.
- *Deferred selling commissions* – Commissions paid on the sale of certain mutual fund products are deferred and amortized over a maximum period of seven years. Prior to April 1, 2001, the maximum period for amortization for Investors Group was three years. On April 1, 2001 Investors Group revised the period of amortization of these expenditures to reflect a more accurate estimate of their useful life. This estimate is also consistent with that used by Mackenzie. The Company regularly reviews the carrying value of the deferred selling commissions with respect to any events or circumstances that indicate impairment or that an adjustment to the amortization period is necessary.

## CHANGES IN ACCOUNTING POLICIES

As disclosed in Note 1 of the Consolidated Financial Statements, IGM Financial adopted the following changes in accounting policies in 2005:

- *CICA Accounting Guideline 15* – Consolidation of Variable Interest Entities (VIEs), effective for annual and interim periods beginning on or after November 1, 2004, requires consolidation of VIEs by the primary beneficiary. The Company completed a review of all of the VIEs in which it has a variable interest and has determined that there are no VIEs requiring consolidation under this guideline except with respect to the Company's share purchase plan compensation trust. The Company is considered the primary beneficiary of the share purchase plan compensation trust. However, the consolidation of this trust does not have a significant impact as both the assets (IGM Financial shares) and the liabilities (the obligation to deliver IGM Financial shares to the participants) of the trust offset each other in the Share Capital section of the Consolidated Balance Sheets.
- *CICA Section 3860* – Financial Instruments – Disclosure and Presentation, effective for fiscal years beginning on or after November 1, 2004, was amended to require obligations that can be settled at the issuer's option by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. On January 1, 2005, the Company retroactively adopted the amended standard with restatement of prior periods. The Company's preferred shares were reclassified from shareholders' equity to liabilities and the preferred dividends were reclassified to operating expenses in the Consolidated Statements of Income. The change does not have any impact on basic earnings per share or net income available to common shareholders.

## FUTURE ACCOUNTING CHANGES

The CICA has issued three new standards: Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income. These will be effective for the Company on January 1, 2007, and require the following:

- *Financial Instruments – Recognition and Measurement* – All financial assets and liabilities will be carried at fair value in the Consolidated Balance Sheets, except the following, which will be carried at amortized cost: loans and receivables and non-trading financial liabilities. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will continue to be recorded in the Consolidated Statements of Income. Unrealized gains and losses on financial assets that are held as available for sale will be recorded in other comprehensive income until realized, when they will be recorded in the Consolidated Statements of Income. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value in the Consolidated Balance Sheets.
- *Hedges* – In a fair value hedge, the change in fair value of the hedging derivative will be offset in the Consolidated Statements of Income against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative to the extent effective will be recorded in other comprehensive income until the asset or liability being hedged affects the Consolidated Statements of Income, at which time the related change in fair value of the derivative will also be recorded in the Consolidated Statements of Income. Any hedge ineffectiveness will be recorded in the Consolidated Statements of Income.
- *Comprehensive Income* – Unrealized gains and losses on financial assets that will be held as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of cash flow hedging instruments, will be recorded in a Statements of Other Comprehensive Income until recognized in the Consolidated Statements of Income. Other comprehensive income will form part of shareholders' equity.

The Company is currently evaluating the impact of adopting these standards.

## Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2005, the Co-Presidents and Chief Executive Officers and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance in ensuring that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation (a) is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) is accumulated and communicated to the Company's senior management, including the Co-Presidents and Chief Executive Officers and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

## Other Information

### TRANSACTIONS WITH RELATED PARTIES

IGM Financial enters into transactions with Great-West Life, London Life and Canada Life, subsidiaries of its affiliate, GWL. These transactions are in the normal course of business and have been recorded at the agreed upon exchange amounts as described below.

- The Company provided to and received from Great-West Life certain administrative services enabling each organization to take advantage of economies of scale and areas of expertise.
- The Company distributed life insurance and disability insurance products under a distribution agreement with Great-West Life and Canada Life and received $37.2 million in distribution fees (2004 – $17.8 million). London Life distributed certain mutual funds of the Company.
- In order to manage its overall liquidity position, the Company's mortgage banking operation is active in the securitization market and also sells residential mortgage loans to third parties, on a fully serviced basis. During 2005, the Company sold residential mortgage loans to Great-West Life and London Life for $122.8 million compared to $76.9 million in 2004.

Mackenzie entered into an arrangement involving a wholly-owned subsidiary of Mackenzie and an entity managed by Mackenzie to facilitate innovative product enhancements. As part of this arrangement, the parties have the legal right and intent to settle on a net basis certain related party financial assets and liabilities. These assets and liabilities, which totalled nil at December 31, 2005 (2004 – $3.7 billion), have been offset and, accordingly, have no impact on the Consolidated Balance Sheets. During the year, Mackenzie earned investment income of $3.0 million (2004 – $1.8 million) and incurred interest expense of $3.0 million (2004 – $1.8 million) related to this arrangement.

For further information on transactions involving related parties, see Notes 5 and 19 of the Consolidated Financial Statements.

### OUTSTANDING SHARE DATA

Outstanding common shares of IGM Financial as at December 31, 2005 totalled 264,539,213. As at February 16, 2006, outstanding common shares totalled 264,653,702.

### SEDAR

Additional information relating to IGM Financial, including the Company's most recent financial statements and Annual Information Form, is available at www.sedar.com.

# Consolidated Financial Statements



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# Management's Responsibility for Financial Reporting

The consolidated financial statements of IGM Financial Inc. and related financial information have been prepared by Management, which is responsible for the integrity, objectivity and reliability of the data presented. This responsibility includes selecting appropriate accounting principles and making judgments and estimates consistent with Canadian generally accepted accounting principles. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Systems of internal control and supporting procedures are maintained to provide reasonable assurance of the reliability of financial information and the safeguarding of all assets controlled by the Company. These controls and supporting procedures include quality standards in hiring and training employees, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by extensive internal audit programs, which are subject to scrutiny by the shareholders' auditors.

Ultimate responsibility for the consolidated financial statements rests with the Board of Directors. The Board is assisted in discharging this responsibility by an Audit Committee, consisting of directors who are not officers or employees of the Company. This Committee reviews the consolidated financial statements and recommends them for approval by the Board. In addition, the Audit Committee reviews the recommendations of the internal auditor and the shareholders' auditors for improvements in internal control and the action of Management to implement such recommendations. In carrying out its duties and responsibilities, the Committee meets regularly with Management and with both the internal auditor and the shareholders' auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged.

Deloitte & Touche LLP, independent auditors appointed by the shareholders, have examined the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards, and have expressed their opinion upon the completion of their examination in their Report to the Shareholders. The shareholders' auditors have full and free access to the Audit Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting and the adequacy of the systems of internal control.

| Murray J. Taylor | Charles R. Sims | Gregory D. Tretiak |
|---|---|---|
| *Co-President and Chief Executive Officer* | *Co-President and Chief Executive Officer* | *Executive Vice-President, Finance* |

# Auditors' Report

To the Shareholders, IGM Financial Inc.

We have audited the consolidated balance sheets of IGM Financial Inc. as at December 31, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
*Winnipeg, Manitoba*
*February 16, 2006*

# Consolidated Balance Sheets

| As at December 31 *(in thousands of dollars)* | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 1,068,061** | $ 864,990 |
| Securities *(Note 2)* | **178,011** | 126,310 |
| Loans *(Note 3)* | **512,989** | 496,652 |
| Investment in affiliate *(Note 5)* | **509,721** | 490,716 |
| Deferred selling commissions | **927,958** | 850,791 |
| Other assets *(Note 6)* | **336,473** | 371,717 |
| Intangible assets *(Note 7)* | **900,180** | 900,444 |
| Goodwill *(Note 7)* | **2,373,483** | 2,371,591 |
| | **$ 6,806,876** | $ 6,473,211 |
| **Liabilities** | | |
| Deposits and certificates *(Note 8)* | **$ 692,770** | $ 710,950 |
| Other liabilities *(Note 9)* | **634,256** | 605,017 |
| Future income taxes *(Note 11)* | **449,717** | 422,848 |
| Long-term debt *(Note 12)* | **1,225,010** | 1,226,795 |
| Preferred shares *(Note 13)* | **360,000** | 360,000 |
| | **3,361,753** | 3,325,610 |
| **Shareholders' Equity** | | |
| Share capital *(Note 13)* | **1,481,519** | 1,475,405 |
| Contributed surplus | **9,213** | 4,190 |
| Retained earnings | **1,954,391** | 1,668,006 |
| | **3,445,123** | 3,147,601 |
| | **$ 6,806,876** | $ 6,473,211 |

*(See accompanying notes to consolidated financial statements.)*

On behalf of the Board

Murray J. Taylor
*Director*

Donald F. Mazankowski
*Director*

# Consolidated Statements of Income

| For the years ended December 31 *(in thousands of dollars, except shares and per share amounts)* | | 2005 | 2004 |
|---|---|---|---|
| **Fee and net investment income** | | | |
| Management | | **$ 1,644,737** | $ 1,491,657 |
| Administration | | **307,391** | 299,612 |
| Distribution | | **212,344** | 164,471 |
| Net investment income and other | | **183,108** | 163,331 |
| Total fee and net investment income | | **2,347,580** | 2,119,071 |
| **Operating expenses** | | | |
| Commission expense | | **726,471** | 616,706 |
| Non-commission expense | | **555,326** | 544,256 |
| Interest expense *(Note 1)* | | **90,425** | 95,593 |
| Total operating expenses | | **1,372,222** | 1,256,555 |
| Income before income taxes and non-controlling interest | | **975,358** | 862,516 |
| Income taxes *(Note 11)* | | **291,500** | 264,969 |
| Income before non-controlling interest | | **683,858** | 597,547 |
| Non-controlling interest | | **1,431** | 1,151 |
| **Net income** | | **$ 682,427** | $ 596,396 |
| Average number of common shares *(in thousands) (Note 17)* | | | |
| | – Basic | **264,573** | 264,431 |
| | – Diluted | **266,609** | 266,010 |
| Earnings per share *(in dollars) (Note 17)* | – Basic | **$ 2.58** | $ 2.26 |
| | – Diluted | **$ 2.56** | $ 2.24 |

*(See accompanying notes to consolidated financial statements.)*

# Consolidated Statements of Retained Earnings

| For the years ended December 31 *(in thousands of dollars)* | 2005 | 2004 |
|---|---|---|
| **Balance, beginning of year** | | |
| As previously reported | **$ 1,668,006** | $ 1,414,705 |
| Change in accounting policy *(Note 1)* | **–** | (1,093) |
| As restated | **1,668,006** | 1,413,612 |
| Net income | **682,427** | 596,396 |
| Common dividends | **(353,207)** | (304,159) |
| Common share cancellation excess *(Note 13)* | **(20,067)** | (22,732) |
| Other *(Note 5)* | **(22,768)** | (15,111) |
| **Balance, end of year** | **$ 1,954,391** | $ 1,668,006 |

*(See accompanying notes to consolidated financial statements.)*

# Consolidated Statements of Cash Flows

| For the years ended December 31 *(in thousands of dollars)* | 2005 | 2004 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 682,427** | $ 596,396 |
| Adjustments to determine net cash from operating activities | | |
| Future income taxes | **26,869** | 45,482 |
| Commission amortization | **260,209** | 226,715 |
| Amortization of capital and intangible assets | **22,431** | 22,856 |
| Changes in operating assets and liabilities and other | **(50,484)** | (121,786) |
| | **941,452** | 769,663 |
| Commissions paid | **(337,376)** | (305,795) |
| | **604,076** | 463,868 |
| **Financing activities** | | |
| Net decrease in deposits and certificates | **(18,180)** | (39,070) |
| Repayment of long-term debt | **(1,785)** | (199,829) |
| Issue of common shares | **9,206** | 9,072 |
| Common dividends paid | **(341,321)** | (292,122) |
| Common shares purchased for cancellation | **(23,335)** | (26,894) |
| | **(375,415)** | (548,843) |
| **Investing activities** | | |
| Acquisition of Investment Planning Counsel, less cash and cash equivalents acquired *(Note 21)* | **–** | (62,583) |
| Acquisition of additional interest in Investment Planning Counsel | **(1,089)** | – |
| Purchase of securities | **(102,217)** | (61,686) |
| Proceeds from the sale of securities | **95,934** | 78,475 |
| Net increase in loans | **(258,005)** | (166,986) |
| Proceeds from securitizations *(Note 4)* | **250,993** | 207,110 |
| Additions to capital assets | **(11,206)** | (13,680) |
| | **(25,590)** | (19,350) |
| Increase (decrease) in cash and cash equivalents | **203,071** | (104,325) |
| Cash and cash equivalents, beginning of year | **864,990** | 969,315 |
| **Cash and cash equivalents, end of year** | **$ 1,068,061** | $ 864,990 |
| Cash | **$ 174,338** | $ 171,498 |
| Cash equivalents | **893,723** | 693,492 |
| | **$ 1,068,061** | $ 864,990 |

| | | |
|---|---|---|
| Supplemental disclosure of cash flow information | | |
| Amount of interest paid during the year | **$ 131,899** | $ 132,321 |
| Amount of income taxes paid during the year | **$ 239,407** | $ 222,056 |

*(See accompanying notes to consolidated financial statements.)*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Financial Statements of IGM Financial Inc. (Company) have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements. Key components of the financial statements requiring management to make estimates include goodwill, intangible assets, income taxes, deferred selling commissions and employee future benefits. Actual results may differ from such estimates.

During the second quarter of 2004, the Company received shareholder and regulatory approval to change its name from Investors Group Inc. to IGM Financial Inc.

### Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and all subsidiaries on a consolidated basis after elimination of intercompany transactions and balances.

On May 10, 2004, the Company acquired 74.7% of the outstanding common shares of Investment Planning Counsel Inc. (Investment Planning Counsel). During 2005, the Company acquired an additional 0.8% of Investment Planning Counsel for total cash consideration of $1.1 million. The acquisitions were accounted for by the purchase method. At December 31, 2005, the Company owned 75.5% of Investment Planning Counsel. The Consolidated Financial Statements include its assets and liabilities as of December 31, 2005 and 2004 and the results of its operations and cash flows from the date of acquisition.

The equity method is used to account for the Company's investment in Great-West Lifeco Inc., an affiliated company. Both companies are controlled by Power Financial Corporation.

Accounting Guideline 15 – Consolidation of Variable Interest Entities (VIEs), effective for annual and interim periods beginning on or after November 1, 2004, requires consolidation of VIEs by the primary beneficiary. The Company completed a review of all of the VIEs in which it has a variable interest and has determined that there are no VIEs requiring consolidation under this guideline except with respect to the Company's share purchase plan compensation trust. The Company is considered the primary beneficiary of the share purchase plan compensation trust. However, the consolidation of this trust does not have a significant impact as both the assets (IGM Financial Inc. shares) and the liabilities (the obligation to deliver IGM Financial Inc. shares to the participants) of the trust offset each other in the Share Capital section of the Consolidated Balance Sheets.

### Revenue Recognition

Management fees are based on the net asset value of mutual fund assets under management and are recognized on an accrual basis when the service is performed. Administration fees are also recognized on an accrual basis when the service is performed. Distribution revenue derived from mutual fund, insurance, securities and banking transactions are recognized on a trade date basis.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash and temporary investments consisting of highly liquid investments with short-term maturities. Interest income is recorded on an accrual basis.

### Securities

Investment securities comprise equity securities held for long-term investment. Common shares are carried at original cost plus declared dividends. Securities are written down to their fair value when an other than temporary decline in value is identified. Trading securities related to the Company's derivative activities are carried at fair value. Gains and losses on disposal of investment securities and changes in the fair value of trading securities are recorded in Net investment income and other in the Consolidated Statements of Income.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Loans

Loans are carried at amortized cost plus accrued interest less an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans.

A loan is classified as impaired when, in the opinion of management, there no longer is reasonable assurance of the timely collection of the full amount of principal and interest. A loan is also classified as impaired when interest or principal is contractually past due 90 days, except in circumstances where management has determined that the collectibility of principal and interest is not in doubt. Once a loan is classified as impaired, any accrued and unpaid interest income is reversed and charged against interest income in the current period. Thereafter interest income is recognized on a cash basis.

The Company maintains an allowance for credit losses which is considered adequate by management to absorb all credit related losses in its portfolio. Specific allowances are established as a result of reviews of individual loans. There is a second category of allowance, designated general allowance, which is allocated against sectors rather than specifically against individual loans. This allowance is established where a prudent assessment by management suggests that losses may occur but where such losses cannot yet be identified on an individual loan basis.

### Securitizations

The Company periodically transfers mortgages and personal loans to commercial paper conduits that in turn issue securities to investors. The Company retains servicing responsibilities and certain elements of recourse with respect to credit losses on transferred loans. The Company also transfers NHA-insured mortgages through the issuance of mortgage-backed securities.

Transfers of loans are accounted for as sales provided that control over the transferred loans has been surrendered and consideration other than beneficial interests in the transferred loans has been received in exchange. The loans are removed from the Consolidated Balance Sheets and a gain or loss is recognized in income immediately based on the carrying value of the loans transferred. The carrying value is allocated between the assets transferred and the retained interests in proportion to their fair values at the date of transfer. To obtain the fair value of the Company's retained interests, quoted market prices are used if available. However, since quotes are generally not available for retained interests, the estimated fair value is based on the present value of future expected cash flows using management's best estimates of key assumptions such as prepayment rates, excess spread, expected credit losses and discount rates commensurate with the risks involved. Retained interests are reviewed quarterly for impairment. The Company continues to service the loans transferred. As a result, a servicing liability is recognized and amortized over the expected term of the transferred loans as servicing fees.

For all transfers of loans, the gains or losses and the servicing fee revenue are reported in Net investment income and other in the Consolidated Statements of Income. The retained interests in the securitized loans are recorded in Other assets and the servicing liability is recorded in Other liabilities on the Consolidated Balance Sheets.

### Deferred Selling Commissions

Commissions paid on the sale of certain mutual funds are deferred and amortized against related fee income over a maximum period of seven years. Commissions paid on the sale of deposits are deferred and amortized over the term of the deposit with a maximum amortization period of five years.

### Capital Assets

Capital assets, which are included in Other assets, are recorded at cost of $259.3 million (2004 – $248.9 million), less accumulated amortization of $183.5 million (2004 – $164.8 million). The properties and related equipment and furnishings are amortized on a straight-line basis over their estimated useful lives.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are reviewed at least annually for impairment using a fair value test and written down for impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, not exceeding a period of 20 years. The Company tests intangible assets with a finite life for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. The Company writes down the assets to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

The Company has completed its annual impairment testing on goodwill, indefinite life intangible assets and finite life intangible assets and has determined that no impairment charge was necessary.

### Employee Future Benefits

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care and life insurance plan for eligible retirees.

The defined benefit pension plan provides pensions based on length of service and final average earnings. An actuarial valuation is performed for funding purposes every three years. The most recent actuarial valuation was completed as at December 31, 2004 and the next required valuation will be completed based on a measurement date of December 31, 2007.

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service based upon management's assumptions about the expected long-term rate of return on plan assets, discount rates, compensation increases, retirement ages of employees, mortality and expected health care costs. The discount rate used to value liabilities is based on market rates at the measurement date. Plan assets are valued at fair value for purposes of calculating the expected long-term rate of return. The defined benefit pension plan is invested in proprietary equity, balanced and fixed income mutual funds.

Benefit expense or income, which is included in Non-commission expense, includes the cost of pension or other post-retirement benefits provided in respect of the current year's service, interest cost on the accrued benefit liability, the expected return on plan assets and the amortization of actuarial gains or losses over the expected average remaining service life of employees. These periods range from 11 years to 16 years for the various benefit plans.

The accrued benefit asset or liability represents the cumulative difference between the expense and funding contributions and is included in Other assets or Other liabilities.

### Stock-based Compensation and Other Stock-based Payments

Effective January 1, 2004, CICA 3870, Stock-based Compensation and Other Stock-based Payments was amended to require expense treatment for all stock-based compensation and payments. Previously the standard encouraged, but did not require, the use of a fair value-based method to account for stock-based transactions with employees (Note 14). On January 1, 2004, the Company adopted the amended standard retroactively without restatement of prior periods for all stock-based compensation and other stock-based payments to employees since 2002. The cumulative effect of adopting the new recommendations in the Company's Consolidated Financial Statements was to both increase Contributed surplus and decrease opening Retained earnings as at January 1, 2004 by $1.1 million.

The fair value of stock options is determined on each grant date. Compensation expense is recognized over the period that the stock options vest, with a corresponding increase in Contributed surplus. When stock options are exercised, the proceeds together with the amount recorded in Contributed surplus are added to Share capital.

### Income Taxes

The Company follows the liability method in accounting for income taxes whereby future income tax assets and liabilities reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates which are anticipated to be in effect when the temporary differences are expected to reverse.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Liabilities and Equity

Effective for fiscal years beginning on or after November 1, 2004, CICA 3860, Financial Instruments – Disclosure and Presentation was amended to require obligations that can be settled at the issuer's option by issuing a variable number of the issuer's own equity instruments to be presented as liabilities rather than equity. On January 1, 2005, the Company retroactively adopted the amended standard with restatement of prior periods. The Company's preferred shares were reclassified from shareholders' equity to liabilities and the preferred dividends were reclassified to operating expenses in the Consolidated Statements of Income. The change does not have any impact on basic earnings per share or net income available to common shareholders.

### Earnings Per Share

Basic earnings per share is determined by dividing Net income available to common shareholders by the average number of common shares outstanding for the year. Diluted earnings per share is determined using the same method as basic earnings per share except that the average number of common shares outstanding includes the potential dilutive effect of outstanding stock options granted by the Company as determined by the treasury method.

### Derivative Financial Instruments

Derivative Financial instruments are utilized by the Company in the management of equity market and interest rate exposures. The Company does not utilize derivative financial instruments for speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to anticipated future transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Company manages its exposure to market risk on its securities by either entering into forward sale contracts, purchasing a put option or by simultaneously purchasing a put option and writing a call option on the same security. The Company designates these contracts as hedges of the future sale of specified securities. Any unrealized gains and losses on the forward sales and options are accounted for on the deferral basis where gains and losses, including any premiums paid or received, are recognized in Net investment income and other on a basis consistent with the future sale of the related securities.

The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its mortgage banking operations and asset liability management. The swap agreements require the periodic exchange of net interest payments without the exchange of the notional principal amount on which the payments are based.

Effective January 1, 2004, the Company adopted the recommendations of CICA Accounting Guideline 13 – Hedging Relationships (AcG-13) on a prospective basis. AcG-13 specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges and the discontinuance of hedge accounting. The Company reassessed its hedging relationships as at January 1, 2004 and determined that its interest rate swaps on mortgage banking activities did not qualify for hedge accounting under AcG-13. The impact on the Consolidated Financial Statements was not material.

Derivatives that do not qualify for hedge accounting are carried at fair value on the Consolidated Balance Sheets, and changes in fair value are recorded in Net investment income and other in the Consolidated Statements of Income. Non-qualifying derivatives continue to be utilized on a basis consistent with the risk management policies of the Company and are monitored by the Company for effectiveness as economic hedges even if the specific hedge accounting requirements of AcG-13 are not met.

If a designated hedged item is sold prior to the termination of the related derivative instruments or it is no longer probable that the sale will occur at the date originally anticipated, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

### Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

## 2. SECURITIES

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Common shares | **$ 146,146** | **$ 265,431** | $ 92,459 | $ 218,007 |
| Investments in mutual funds | **31,865** | **36,259** | 33,851 | 36,111 |
| | **$ 178,011** | **$ 301,690** | $ 126,310 | $ 254,118 |

## 3. LOANS

| | TERM TO MATURITY | | | | |
|---|---|---|---|---|---|
| | 1 YEAR OR LESS | 1–5 YEARS | OVER 5 YEARS | 2005 TOTAL | 2004 TOTAL |
| Residential mortgages | **$ 115,398** | **$ 167,563** | **$ 3,957** | **$ 286,918** | $ 305,920 |
| Commercial mortgages | **9,123** | **462** | **–** | **9,585** | 15,113 |
| | **124,521** | **168,025** | **3,957** | **296,503** | 321,033 |
| Personal loans | **182,615** | **20,384** | **21,685** | **224,684** | 193,429 |
| | **$ 307,136** | **$ 188,409** | **$ 25,642** | **521,187** | 514,462 |
| Less: General allowance | | | | **8,198** | 17,810 |
| | | | | **$ 512,989** | $ 496,652 |
| Impaired loans included above | | | | **$ 983** | $ 369 |
| Less: General allowance | | | | **8,198** | 17,810 |
| | | | | **$ (7,215)** | $ (17,441) |
| The change in the allowance for credit losses is as follows: | | | | | |
| Balance, beginning of year | | | | **$ 17,810** | $ 21,495 |
| Write-offs | | | | **(208)** | (100) |
| Recoveries | | | | **334** | 204 |
| Reversal of provision for credit losses | | | | **(9,738)** | (3,789) |
| Balance, end of year | | | | **$ 8,198** | $ 17,810 |

## 4. SECURITIZATIONS

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | PRINCIPAL AMOUNT SECURITIZED | NET GAIN | PRINCIPAL AMOUNT SECURITIZED | NET GAIN |
| Commercial paper conduit transactions | **$ 252,254** | **$ 4,315** | $ 190,991 | $ 2,460 |
| Mortgage-backed security transactions | **$ –** | **$ –** | $ 17,359 | $ 16 |

The Company's retained interest in the securitized loans includes cash reserve accounts and rights to future excess spread. This retained interest is subordinated to the interests of the related commercial paper conduits (CP conduits) and mortgage-backed securities (MBS) holders (the Purchasers). The Purchasers do not have recourse to the Company's other assets for any failure of the borrowers to pay when due.

The key economic assumptions used to value the retained interests at the date of securitization issuances for transactions completed during 2005 and 2004 were as follows:

| | 2005 | 2004 | |
|---|---|---|---|
| | CP CONDUIT TRANSACTIONS | CP CONDUIT TRANSACTIONS | MBS TRANSACTIONS |
| Weighted-average | | | |
| Remaining service life (in years) | **3.7** | 3.1 | 5.0 |
| Interest rate | **4.98%** | 4.97% | 5.04% |
| Coupon rate of securities issued | **4.00%** | 4.07% | 3.99% |
| Prepayment rate | **15.00%** | 15.00% | 18.90% |
| Discount rate | **4.55%** | 4.51% | 4.35% |
| Servicing fees | **0.25%** | 0.25% | 0.23% |
| Expected credit losses | **0.05%** | 0.05% | N/A |

At December 31, 2005, the fair value of the total retained interests was $15.5 million (2004 – $19.7 million). The sensitivity to immediate 10% or 20% adverse changes to key assumptions was considered to be immaterial.

The total loans reported on the Company's Consolidated Balance Sheets, the securitized loans serviced by the Company, as well as cash flows related to securitization arrangements are as follows:

| | 2005 | 2004 |
|---|---|---|
| Mortgages | **$ 826,202** | $ 869,141 |
| Personal loans | **245,624** | 220,733 |
| | **1,071,826** | 1,089,874 |
| Less: Securitized loans serviced | **558,837** | 593,222 |
| Total on-balance sheet loans | **$ 512,989** | $ 496,652 |
| Proceeds from new securitizations | **$ 250,993** | $ 207,110 |
| Cash flows received on retained interests | **$ 10,772** | $ 13,975 |

## 5. INVESTMENT IN AFFILIATE

| | 2005 | 2004 |
|---|---|---|
| Carrying value, beginning of year | **$ 490,716** | $ 460,655 |
| Share of earnings | **72,381** | 71,056 |
| Dividends | **(30,608)** | (25,884) |
| Foreign currency translation and other adjustments | **(22,768)** | (15,111) |
| Carrying value, end of year | **$ 509,721** | $ 490,716 |
| Share of equity, end of year | **$ 369,946** | $ 351,487 |
| Fair value, end of year | **$ 1,160,073** | $ 1,008,923 |

On September 24, 2004, the shareholders of Great-West Lifeco Inc. (Lifeco) approved a sub-division of Lifeco's common shares on a two-for-one basis. The Company currently holds 37,787,388 (2004 – 37,787,388) shares of Lifeco, which represents an equity interest of 4.2% (2004 – 4.2%).

## 6. OTHER ASSETS

| | 2005 | 2004 |
|---|---|---|
| Accounts and other receivables | **$ 161,201** | $ 172,580 |
| Capital assets | **75,780** | 84,095 |
| Deferred and prepaid expenses | **50,501** | 63,735 |
| Accrued benefit asset *(Note 10)* | **43,339** | 42,325 |
| Other | **5,652** | 8,982 |
| | **$ 336,473** | $ 371,717 |

## 7. GOODWILL AND INTANGIBLE ASSETS

During the fourth quarter of 2004, the Company performed an evaluation of the fair value of the assets acquired and liabilities assumed on the acquisition of Investment Planning Counsel (Note 21). The amount assigned to intangible assets represents the fair value of mutual fund management and distribution contracts acquired. The management contracts have indefinite useful lives and are not subject to amortization. The distribution contracts are amortized on a straight-line basis over a useful life not to exceed 20 years. In the second quarter of 2005, the Company finalized the allocation of goodwill.

The changes in the carrying amount of goodwill are as follows:

| 2005 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
|---|---|---|---|---|
| Balance, beginning of year | **$ 1,346,245** | **$ 923,590** | **$ 101,756** | **$ 2,371,591** |
| Acquired during the year | **–** | **–** | **972** | **972** |
| Allocation of goodwill | **1,536** | **19,960** | **(21,496)** | **–** |
| Goodwill adjustment | **–** | **–** | **920** | **920** |
| Balance, end of year | **$ 1,347,781** | **$ 943,550** | **$ 82,152** | **$ 2,373,483** |

| 2004 | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
|---|---|---|---|---|
| Balance, beginning of year | $ 1,346,245 | $ 923,590 | $ – | $ 2,269,835 |
| Acquired during the year | – | – | 101,946 | 101,946 |
| Goodwill adjustment | – | – | (190) | (190) |
| Balance, end of year | $ 1,346,245 | $ 923,590 | $ 101,756 | $ 2,371,591 |

The components of other intangible assets are as follows:

| 2005 | FINITE-LIFE | INDEFINITE-LIFE | | | |
|---|---|---|---|---|---|
| | DISTRIBUTION CONTRACTS | MUTUAL FUND MANAGEMENT CONTRACTS | TRADE NAMES | TOTAL | TOTAL |
| Carrying value | **$ 24,421** | **$ 608,764** | **$ 268,368** | **$ 877,132** | **$ 901,553** |
| Acquired during the year | **964** | **89** | **–** | **89** | **1,053** |
| Accumulated amortization | **(2,426)** | **–** | **–** | **–** | **(2,426)** |
| Net carrying value | **$ 22,959** | **$ 608,853** | **$ 268,368** | **$ 877,221** | **$ 900,180** |

| 2004 | FINITE-LIFE | INDEFINITE-LIFE | | | |
|---|---|---|---|---|---|
| | DISTRIBUTION CONTRACTS | MUTUAL FUND MANAGEMENT CONTRACTS | TRADE NAMES | TOTAL | TOTAL |
| Carrying value | $ – | $ 591,580 | $ 268,368 | $ 859,948 | $ 859,948 |
| Acquired during the year | 24,421 | 17,184 | – | 17,184 | 41,605 |
| Accumulated amortization | (1,109) | – | – | – | (1,109) |
| Net carrying value | $ 23,312 | $ 608,764 | $ 268,368 | $ 877,132 | $ 900,444 |

## 8. DEPOSITS AND CERTIFICATES

Included in the assets of the Consolidated Balance Sheets are cash and cash equivalents and loans amounting to $692.8 million (2004 – $711.0 million) related to deposits and certificates.

| | | TERM TO MATURITY | | | | |
|---|---|---|---|---|---|---|
| | DEMAND | 1 YEAR OR LESS | 1–5 YEARS | OVER 5 YEARS | 2005 TOTAL | 2004 TOTAL |
| Deposits | $ 484,347 | $ 81,613 | $ 117,205 | $ 2,452 | $ 685,617 | $ 702,668 |
| Certificates | – | 713 | 2,079 | 4,361 | 7,153 | 8,282 |
| | $ 484,347 | $ 82,326 | $ 119,284 | $ 6,813 | $ 692,770 | $ 710,950 |

## 9. OTHER LIABILITIES

| | 2005 | 2004 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 324,949 | $ 350,925 |
| Taxes payable | 143,407 | 102,884 |
| Dividends payable | 91,266 | 79,380 |
| Interest payable | 14,473 | 14,563 |
| Accrued benefit liabilities *(Note 10)* | 50,199 | 45,425 |
| Deferred revenue | 9,962 | 11,840 |
| | $ 634,256 | $ 605,017 |

## 10. EMPLOYEE FUTURE BENEFITS

The Company maintains a number of employee future benefit plans. These plans include a funded defined benefit pension plan for all eligible employees, an unfunded supplementary executive retirement plan (SERP) for certain executive officers, and an unfunded post-retirement health care and life insurance plan for eligible retirees.

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | DEFINED BENEFIT PENSION PLAN | SERP | OTHER POST-RETIREMENT BENEFITS | DEFINED BENEFIT PENSION PLAN | SERP | OTHER POST-RETIREMENT BENEFITS |
| Fair value of plan assets | | | | | | |
| Balance, beginning of year | **$ 167,636** | **$ –** | **$ –** | $ 154,767 | $ – | $ – |
| Employee contributions | **2,678** | **–** | **–** | 2,633 | – | – |
| Benefits paid | **(6,787)** | **–** | **–** | (6,639) | – | – |
| Actual return on plan assets | **26,731** | **–** | **–** | 16,875 | – | – |
| Balance, end of year | **190,258** | **–** | **–** | 167,636 | – | – |
| Accrued benefit obligation | | | | | | |
| Balance, beginning of year | **119,788** | **15,236** | **34,462** | 106,573 | 11,515 | 30,329 |
| Benefits paid | **(6,787)** | **(735)** | **(688)** | (6,639) | (722) | (1,025) |
| Current service cost | **4,313** | **398** | **1,630** | 3,787 | 351 | 1,459 |
| Employee contributions | **2,678** | **–** | **–** | 2,633 | – | – |
| Interest cost | **7,493** | **942** | **2,310** | 7,027 | 925 | 2,111 |
| Actuarial losses (gains) | **20,170** | **2,637** | **(6,350)** | 6,407 | 3,167 | 1,588 |
| Balance, end of year | **147,655** | **18,478** | **31,364** | 119,788 | 15,236 | 34,462 |
| Funded status – plan surplus (deficit) | **42,603** | **(18,478)** | **(31,364)** | 47,848 | (15,236) | (34,462) |
| Unamortized net actuarial losses (gains) | **736** | **3,009** | **(3,366)** | (5,523) | 1,148 | 3,125 |
| Accrued benefit asset (liability) | **$ 43,339** | **$ (15,469)** | **$ (34,730)** | $ 42,325 | $ (14,088) | $ (31,337) |

The asset allocation by asset category of the defined benefit pension plan is equity securities 61% (2004 – 56%), fixed income securities 34% (2004 – 42%) and cash equivalents 5% (2004 – 2%).

## 10. EMPLOYEE FUTURE BENEFITS *(continued)*

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | DEFINED BENEFIT PENSION PLAN | SERP | OTHER POST-RETIREMENT BENEFITS | DEFINED BENEFIT PENSION PLAN | SERP | OTHER POST-RETIREMENT BENEFITS |
| Benefit (income) expense was determined as follows: | | | | | | |
| Current service cost | **$ 4,313** | **$ 398** | **$ 1,630** | $ 3,787 | $ 351 | $ 1,459 |
| Interest cost on accrued benefit obligation | **7,493** | **942** | **2,310** | 7,027 | 925 | 2,111 |
| Expected return on plan assets | **(11,591)** | **–** | **–** | (10,694) | – | – |
| Amortization of net actuarial (gains) losses | **(1,230)** | **776** | **141** | (1,553) | 83 | 43 |
| | **$ (1,015)** | **$ 2,116** | **$ 4,081** | $ (1,433) | $ 1,359 | $ 3,613 |
| Significant weighted-average actuarial assumptions: | | | | | | |
| Discount rate | **5.30%** | **5.25%** | **5.40%** | 6.25% | 6.25% | 6.50% |
| Expected long-term rate of return on plan assets | **7.00%** | **N/A** | **N/A** | 7.00% | N/A | N/A |
| Rate of compensation increase | **4.60%** | **2.75%** | **N/A** | 6.10% | 6.10% | N/A |
| Health care cost trend rate(1) | **N/A** | **N/A** | **10.00%** | N/A | N/A | 10.00% |

*(1) Trending to 5.00% in 2010 and remaining at that rate thereafter.*

The effect of a 1% increase in assumed health care cost trend rates would be an increase in the accrued other post-retirement benefit obligation of $6.5 million as at December 31, 2005 and an increase in the 2005 other post-retirement benefit expense of $0.9 million. A decrease of 1% in assumed health care cost trend rates would result in a decrease in the accrued other post-retirement benefit obligation of $5.1 million as at December 31, 2005 and a decrease in the 2005 other post-retirement benefit expense of $0.7 million.

In addition, the Company maintains a group RSP available only to certain employees. In 2005, the Company's contributions were $5.2 million (2004 – $5.0 million).

## 11. INCOME TAXES

The Company's effective income tax rate is derived as follows:

| | 2005 | 2004 |
|---|---|---|
| Income taxes at Canadian federal and provincial statutory rates | **35.93%** | 36.17% |
| Effect of: | | |
| Dividend income | **(0.30)** | (0.22) |
| Net capital gains and losses | **(0.75)** | (0.74) |
| Share of earnings of affiliate *(Note 5)* | **(2.72)** | (3.06) |
| Preferred dividend paid | **0.79** | 0.90 |
| Other items | **(3.06)** | (2.33) |
| Effective income tax rate | **29.89%** | 30.72% |
| Components of income tax expense are: | | |
| Current income taxes | **$ 264,631** | $ 219,487 |
| Future income taxes | **26,869** | 45,482 |
| | **$ 291,500** | $ 264,969 |

Future income taxes consist of the following taxable temporary differences:

| | 2005 | 2004 |
|---|---|---|
| Future income tax assets | | |
| Accrued benefit liabilities | **$ 18,371** | $ 17,645 |
| Allowance for credit losses | **2,921** | 6,607 |
| Investment revaluations | **6,144** | 9,434 |
| Non-capital loss carryforwards | **13,164** | 59,229 |
| Restructuring costs | **2,375** | 5,136 |
| Other | **36,628** | 43,299 |
| | **79,603** | 141,350 |
| Future income tax liabilities | | |
| Accrued benefit asset | **15,162** | 15,059 |
| Deferred selling commissions | **333,710** | 305,670 |
| Intangible assets | **164,572** | 164,811 |
| Unrealized gains on securities | **–** | 59,707 |
| Other | **15,876** | 18,951 |
| | **529,320** | 564,198 |
| Future income taxes | **$ 449,717** | $ 422,848 |

As at December 31, 2005, the Company has non-capital losses of $90.4 million (2004 – $112.7 million) available to reduce future taxable income, the benefits of which have not been recognized. If not utilized, these losses will expire as follows: 2007 – $1.6 million; 2008 – $5.7 million; 2009 – $4.4 million; 2010 – $40 million; 2013 – $0.2 million and 2014 – $38.5 million.

## 12. LONG-TERM DEBT

| | RATE | MATURITY | 2005 | 2004 |
|---|---|---|---|---|
| Debentures in Series [1] | | | | |
| 1997 | 6.65% | December 13, 2027 | **$ 125,000** | $ 125,000 |
| 2001 | 6.75% | May 9, 2011 | **450,000** | 450,000 |
| 2001 | 7.45% | May 9, 2031 | **150,000** | 150,000 |
| 2002 | 7.00% | December 31, 2032 | **175,000** | 175,000 |
| 2003 | 6.58% | March 7, 2018 | **150,000** | 150,000 |
| 2003 | 7.11% | March 7, 2033 | **150,000** | 150,000 |
| Note payable to related party | | | | |
| Power Financial Corporation | 10.60% | January 16, 2006 | **25,010** | 26,795 |
| | | | **$ 1,225,010** | $ 1,226,795 |

*(1) The debentures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon yields at the time of redemption.*

Interest expense relating to long-term debt was $85.7 million (2004 – $90.9 million).

The note payable to Power Financial Corporation was repaid on January 16, 2006. There are no other required principal repayments in the next five years.

## 13. SHARE CAPITAL

### Authorized

Unlimited number of:

First preferred shares, issuable in series
Second preferred shares, issuable in series
Class 1 non-voting shares
Common shares

### Issued and outstanding

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | SHARES | STATED VALUE | SHARES | STATED TOTAL |
| First preferred shares, Series A | **14,400,000** | **$ 360,000** | 14,400,000 | $ 360,000 |
| Common shares | | | | |
| Balance, beginning of year | **264,598,380** | **$ 1,475,405** | 264,089,791 | $ 1,446,063 |
| Issued under Stock Option Plan *(Note 14)* | **525,533** | **9,382** | 529,893 | 9,138 |
| Purchased for cancellation | **(584,700)** | **(3,268)** | (756,100) | (4,162) |
| Issued on acquisition of Investment Planning Counsel *(Note 21)* | – | – | 734,796 | 24,366 |
| Balance, end of year | **264,539,213** | **$ 1,481,519** | 264,598,380 | $ 1,475,405 |

## 13. SHARE CAPITAL *(continued)*

### Preferred Shares

The preferred shares are entitled to a fixed 5.75% annual non-cumulative dividend payable quarterly. Such shares are redeemable by the Company on or after June 30, 2009 in cash, at $26.00 per share if redeemed prior to June 30, 2010, $25.67 if redeemed on or after June 30, 2010, but prior to June 30, 2011, $25.33 if redeemed on or after June 30, 2011, but prior to June 30, 2012 and $25.00 if redeemed on or after June 30, 2012. On or after June 30, 2009, the Company may convert each preferred share into that number of common shares determined by dividing the then applicable redemption price by the greater of $2.00 and 95% of the weighted-average trading price of the common shares at such time. On or after June 30, 2013, subject to the right of the Company to redeem for cash or to find substitute purchasers for such shares, each preferred share will be convertible at the option of the holder into that number of common shares determined by dividing $25.00 by the greater of $2.00 and 95% of the weighted-average trading price of the common shares at such time.

### Normal Course Issuer Bid

The Company commenced a normal course issuer bid, effective for one year, on February 23, 2005. Under this bid, the Company may purchase up to 13.2 million or 5% of its common shares as at February 18, 2005. As at December 31, 2005, 584,700 shares were purchased at a cost of $23.3 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

On February 22, 2004, the Company commenced a normal course issuer bid, effective for one year, authorizing it to purchase up to 13.2 million or 5% of its common shares outstanding as at January 31, 2004. As at December 31, 2004, 756,100 shares were purchased at a cost of $26.9 million. The premium paid to purchase the shares in excess of the stated value was charged to Retained earnings.

## 14. STOCK-BASED COMPENSATION

### Stock Option Plan

Under the terms of the Company's Stock Option Plan (Plan), options to purchase common shares are periodically granted to employees and financial planning consultants at prices not less than the fair market value of such shares immediately prior to the grant date. The options are subject to time and/or performance vesting conditions set out at the grant date and are exercisable no later than 10 years after the grant date. At December 31, 2005, 17,852,915 (2004 – 18,378,448) common shares were reserved for issuance under the Plan.

During 2005, the Company granted 1,920,800 options to employees (2004 – 1,522,500) and nil options to non-employees (2004 – 88,750). A portion of the options granted to employees are subject to performance targets. The weighted-average fair value of options granted during the year ended December 31, 2005 has been estimated at $7.76 per option (2004 – $7.19) using the Black-Scholes option pricing model, based on the following assumptions: (i) risk-free interest rate of 4.04% (2004 – 4.01%), (ii) expected option life of six years (2004 – six years), (iii) expected volatility of 25.00% (2004 – 25.00%) and (iv) expected dividend yield of 3.42% (2004 – 3.28%).

The Company recorded compensation expense related to its stock option program of $5.0 million (2004 – $2.9 million).

## 14. STOCK-BASED COMPENSATION *(continued)*

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS | WEIGHTED-AVERAGE EXERCISE PRICE |
| Balance, beginning of year | **7,243,068** | **$ 24.23** | 6,303,023 | $ 21.21 |
| Granted | **1,920,800** | **37.69** | 1,611,250 | 33.82 |
| Exercised | **(525,533)** | **17.52** | (529,893) | 17.12 |
| Cancelled | **(186,575)** | **30.34** | (141,312) | 25.38 |
| Balance, end of year | **8,451,760** | **$ 27.57** | 7,243,068 | $ 24.23 |
| Exercisable, end of year | **3,854,090** | **$ 21.99** | 2,752,397 | $ 19.80 |

| Options outstanding at December 31, 2005 | EXPIRY DATE | EXERCISE PRICE ($) | OPTIONS OUTSTANDING | OPTIONS EXERCISABLE |
|---|---|---|---|---|
| | **2007** | **12.98** | **41,920** | **41,920** |
| | **2008** | **20.99** | **55,950** | **55,950** |
| | **2009** | **20.00–24.27** | **322,070** | **322,070** |
| | **2010** | **17.00** | **44,000** | **44,000** |
| | **2011** | **19.83–22.78** | **3,166,274** | **2,655,124** |
| | **2012** | **27.81** | **92,640** | **46,746** |
| | **2013** | **25.66–28.66** | **1,333,533** | **419,852** |
| | **2014** | **33.52–35.77** | **1,505,173** | **268,428** |
| | **2015** | **37.09–37.78** | **1,890,200** | **–** |
| | | | **8,451,760** | **3,854,090** |

### Share Purchase Plans

Under the Company's share purchase plans, eligible employees and financial planning consultants can elect each year to have a percentage of their annual earnings withheld, subject to a maximum, to purchase the Company's common shares. The Company matches 50% of the contribution amounts. All contributions are used by the plan trustee to purchase common shares in the open market. Shares purchased with Company contributions vest after a maximum period of three years following the date of purchase. The Company's contributions are recorded in Non-commission expense as paid and totalled $8.2 million (2004 – $6.3 million).

### Deferred Share Unit Plan

The Company has a deferred share unit plan for the directors of the Company to promote a greater alignment of interest between directors and shareholders of the Company. Under the Plan, directors are required to receive 50% of their annual retainer in the form of deferred share units and may elect to receive the balance of their annual retainer in cash or deferred share units. Directors may elect to receive their attendance fees in a combination of deferred share units and cash. The number of deferred share units granted is determined by dividing the amount of remuneration payable by the average closing price on the Toronto Stock Exchange of the common shares of the Company on the last five days of the fiscal quarter (the "value of deferred share unit"). A director who has elected to receive deferred share units will receive additional deferred share units in respect of dividends payable on common shares, based on the value of a deferred share unit at the dividend payment date. Deferred share units are redeemable when a participant is no longer a director, officer or employee of the Company or any of its affiliates by a lump sum cash payment, based on the value of the deferred share units at that time. At December 31, 2005, the fair value of the deferred share units outstanding was $4.7 million (2004 – $2.9 million). Changes in the fair value of the deferred share unit plan are recognized in Non-commission expense during the period in which the change occurs.

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into derivative contracts which are negotiated in the over-the-counter market with Schedule I and Schedule II Chartered bank counterparties on a diversified basis. In all cases the derivative contracts are used for non-trading purposes. Interest rate swaps are contractual agreements between two parties to exchange the related interest payments based on a specified notional amount and reference rate for a specified period. Options are contractual agreements which convey the right, but not the obligation, to buy or sell specific securities at a fixed price at a future date. Forward sales are contractual agreements to sell a financial instrument on a future date at a specified price.

The amount subject to credit risk is limited to the current fair value of the instruments which are in a gain position. This represents only a small percentage of the notional amount. The credit risk is presented below without giving effect to any netting agreements or collateral arrangements and does not reflect actual or expected losses. The total estimated fair value represents the total amount that the Company would receive or pay to terminate all agreements at each year end. However, this would not result in a gain or loss to the Company as the derivative instruments which correlate to certain assets and liabilities provide offsetting gains or losses.

The following table summarizes the Company's derivative financial instruments at December 31:

| | NOTIONAL AMOUNT | | | | | |
|---|---|---|---|---|---|---|
| **2005** | 1 YEAR OR LESS | 1–5 YEARS | OVER 5 YEARS | TOTAL | CREDIT RISK | TOTAL ESTIMATED FAIR VALUE |
| Swaps | **$ 127,745** | **$ 417,685** | **$ 3,868** | **$ 549,298** | **$ 3,686** | **$ 3,130** |
| Options purchased | **–** | **23,179** | **–** | **23,179** | **76** | **76** |
| Options written | **–** | **31,106** | **–** | **31,106** | **–** | **(29,259)** |
| Forward contracts | **6,091** | **–** | **–** | **6,091** | **964** | **962** |
| | **$ 133,836** | **$ 471,970** | **$ 3,868** | **$ 609,674** | **$ 4,726** | **$ (25,091)** |
| 2004 | | | | | | |
| Swaps | $ 157,093 | $ 398,601 | $ 4,414 | $ 560,108 | $ 6,935 | $ 2,583 |
| Options purchased | 24,336 | 23,179 | – | 47,515 | 1,200 | 1,200 |
| Options written | 29,364 | 31,106 | – | 60,470 | – | (16,560) |
| Forward contracts | 10,878 | 5,100 | – | 15,978 | 120 | (2,365) |
| | $ 221,671 | $ 457,986 | $ 4,414 | $ 684,071 | $ 8,255 | $ (15,142) |

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of on and off-balance sheet financial instruments using the valuation methods and assumptions described below. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties under no compulsion to act and best evidenced by a quoted market price, if one exists. Fair values are management's estimates and are generally calculated using market conditions at a specific point in time and may not reflect future fair values. The calculations are subjective in nature, involve uncertainties and matters of significant judgment.

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | CARRYING VALUE | FAIR VALUE | CARRYING VALUE | FAIR VALUE |
| Assets | | | | |
| Cash and cash equivalents | **$ 1,068,061** | **$ 1,068,061** | $ 864,990 | $ 864,990 |
| Securities | **178,011** | **301,690** | 126,310 | 254,118 |
| Loans | **512,989** | **512,582** | 496,652 | 499,457 |
| Accounts and other receivables | **161,201** | **161,201** | 172,580 | 172,580 |
| Total financial assets | **$ 1,920,262** | **$ 2,043,534** | $ 1,660,532 | $ 1,791,145 |
| Liabilities | | | | |
| Deposits and certificates | **$ 692,770** | **$ 694,302** | $ 710,950 | $ 717,184 |
| Other financial liabilities | **480,887** | **480,887** | 494,612 | 494,612 |
| Long-term debt | **1,225,010** | **1,450,011** | 1,226,795 | 1,377,496 |
| Total financial liabilities | **$ 2,398,667** | **$ 2,625,200** | $ 2,432,357 | $ 2,589,292 |
| Off-balance sheet derivatives *(Note 15)* | **$ –** | **$ (28,221)** | $ – | $ (17,725) |

Fair value is determined using the following methods and assumptions:

The fair value of short-term financial instruments approximate carrying value. These include cash and cash equivalents, accounts and other receivables, and other financial liabilities.

Securities are valued at quoted market prices, when available. When a quoted market price is not readily available, alternative valuation methods may be used.

Loans are valued by discounting the expected future cash flows at market interest rates for loans with similar credit risk.

Deposits and certificates are determined by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms and credit risks.

Long-term debt is determined by reference to current market prices for debentures and notes payable with similar terms and risks.

Derivative financial instruments fair values are based on quoted market prices, where available, prevailing market rates for instruments with similar characteristics and maturities, or net present value analysis.

## 17. EARNINGS PER COMMON SHARE

| | 2005 | 2004 |
|---|---|---|
| **Earnings** | | |
| Net income | **$ 682,427** | $ 596,396 |
| **Number of common shares** *(in thousands)* | | |
| Average number of common shares outstanding | **264,573** | 264,431 |
| Add: | | |
| – Potential exercise of outstanding stock options | **2,036** | 1,579 |
| Average number of common shares outstanding – Diluted basis | **266,609** | 266,010 |
| **Earnings per common share** *(in dollars)* | | |
| Basic | **$ 2.58** | $ 2.26 |
| Diluted | **$ 2.56** | $ 2.24 |

In certain circumstances, the preferred shares referred to in Note 13 are convertible into common shares. These conversions are not included in the calculation of diluted earnings per share as the Company has the option to settle in cash instead of shares.

## 18. CONTINGENCIES, COMMITMENTS AND GUARANTEES

### Contingencies

Investors Group and Mackenzie are subject to legal actions, including class actions, arising in the normal course of their business. Three class actions related to alleged market timing trading activity in mutual funds of the companies have been commenced. Investors Group entered into settlement agreements in 2004 with a number of its securities regulators in respect of such market timing trading activity. Although it is difficult to predict the outcome of such legal actions, based on current knowledge and consultation with legal counsel, management does not expect the outcome of any of these matters, individually or in aggregate, to have a material adverse effect on the Company's consolidated financial position.

### Commitments

The Company is committed to the following annual lease payments under its operating leases: 2006 – $36.6 million; 2007 – $32.0 million; 2008 – $26.6 million; 2009 – $19.2 million; and 2010 and thereafter – $36.5 million.

### Guarantees

In the normal course of operations, the Company executes agreements that provide for indemnifications to third parties in transactions such as business dispositions, business acquisitions, loans and securitization transactions. The Company has also agreed to indemnify its directors and officers. The nature of these agreements precludes the possibility of making a reasonable estimate of the maximum potential amount the Company could be required to pay third parties as the agreements often do not specify a maximum amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined. Historically, the Company has not made any payments under such indemnification agreements.

## 19. RELATED PARTY TRANSACTIONS

The Company enters into transactions with The Great-West Life Assurance Company (Great-West), London Life Insurance Company (London Life) and The Canada Life Assurance Company (Canada Life), subsidiaries of its affiliate, Lifeco. These transactions are in the normal course of operations and have been recorded at the agreed upon exchange amounts.

During 2005 and 2004, the Company provided to and received from Great-West, a member of the Power Financial Corporation group of companies, certain administrative services. The Company distributes life insurance and disability insurance products under a distribution agreement with Great-West and Canada Life and received $37.2 million in distribution fees (2004 – $17.8 million). London Life distributes certain mutual funds of the Company.

During 2005, the Company sold residential mortgage loans to Great-West and London Life for $122.8 million (2004 – $76.9 million).

Mackenzie Financial Corporation (Mackenzie), a subsidiary of the Company, is party to a set off arrangement involving a wholly-owned subsidiary of Mackenzie and an entity managed by Mackenzie. As part of this arrangement, the parties have the legal right and intent to settle on a net basis certain related party financial assets and liabilities. These assets and liabilities, which totalled nil at December 31, 2005 (2004 – $3.7 billion), have been offset and, accordingly, have no impact on the Consolidated Balance Sheets. During the year, Mackenzie earned investment income of $3.0 million (2004 – $1.8 million) and incurred interest expense of $3.0 million (2004 – $1.8 million) related thereto.

## 20. SEGMENTED INFORMATION

Investors Group and Mackenzie earn fee-based revenues in the conduct of their core business activities which are primarily related to the distribution, management and administration of their mutual funds. Fee revenues are also derived from the provision of brokerage services. Intermediary revenues are derived primarily from the assets funded by deposit and certificate products and from mortgage banking and servicing activities. In addition, Investors Group earns fee revenue from the distribution of insurance products and equity income from its investment in Lifeco.

Corporate and Other includes primarily Investment Planning Counsel, net investment income on unallocated investments, and interest expense on corporate debt.

The results of the reportable segments reflect the Company's internal financial reporting systems.

| | | | | 2005 |
|---|---|---|---|---|
| | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Fee and net investment income | | | | |
| Management | $ 921,015 | $ 691,324 | $ 32,398 | $ 1,644,737 |
| Administration | 166,673 | 138,004 | 2,714 | 307,391 |
| Distribution | 113,778 | 33,961 | 64,605 | 212,344 |
| Net investment income and other | 126,360 | 19,052 | 37,696 | 183,108 |
| | 1,327,826 | 882,341 | 137,413 | 2,347,580 |
| Operating expenses | | | | |
| Commissions | 326,496 | 339,934 | 60,041 | 726,471 |
| Non-commission | 265,461 | 258,890 | 30,975 | 555,326 |
| | 591,957 | 598,824 | 91,016 | 1,281,797 |
| Earnings before undernoted | $ 735,869 | $ 283,517 | $ 46,397 | 1,065,783 |
| Interest expense | | | | 90,425 |
| Income before income taxes and non-controlling interest | | | | 975,358 |
| Income taxes | | | | 291,500 |
| Income before non-controlling interest | | | | 683,858 |
| Non-controlling interest | | | | 1,431 |
| Net income | | | | $ 682,427 |
| Identifiable assets | $ 1,364,130 | $ 2,197,908 | $ 871,355 | $ 4,433,393 |
| Goodwill | 1,347,781 | 943,550 | 82,152 | 2,373,483 |
| Total assets | $ 2,711,911 | $ 3,141,458 | $ 953,507 | $ 6,806,876 |

## 20. SEGMENTED INFORMATION *(continued)*

| | | | | 2004 |
|---|---|---|---|---|
| | INVESTORS GROUP | MACKENZIE | CORPORATE AND OTHER | TOTAL |
| Fee and net investment income | | | | |
| Management | $ 830,273 | $ 645,511 | $ 15,873 | $ 1,491,657 |
| Administration | 156,293 | 140,498 | 2,821 | 299,612 |
| Distribution | 94,189 | 35,599 | 34,683 | 164,471 |
| Net investment income and other | 123,322 | 15,841 | 24,168 | 163,331 |
| | 1,204,077 | 837,449 | 77,545 | 2,119,071 |
| Operating expenses | | | | |
| Commissions | 264,050 | 320,152 | 32,504 | 616,706 |
| Non-commission | 273,766 | 255,651 | 14,839 | 544,256 |
| | 537,816 | 575,803 | 47,343 | 1,160,962 |
| Earnings before undernoted | $ 666,261 | $ 261,646 | $ 30,202 | 958,109 |
| Interest expense | | | | 95,593 |
| Income before income taxes and non-controlling interest | | | | 862,516 |
| Income taxes | | | | 264,969 |
| Income before non-controlling interest | | | | 597,547 |
| Non-controlling interest | | | | 1,151 |
| Net income | | | | $ 596,396 |
| Identifiable assets | $ 1,324,433 | $ 2,169,708 | $ 607,479 | $ 4,101,620 |
| Goodwill | 1,346,245 | 923,590 | 101,756 | 2,371,591 |
| Total assets | $ 2,670,678 | $ 3,093,298 | $ 709,235 | $ 6,473,211 |

## 21. ACQUISITION OF INVESTMENT PLANNING COUNSEL

On May 10, 2004, the Company acquired 74.7% of the outstanding common shares of Investment Planning Counsel, a Canadian financial services company. The results of its operations have been included in the Consolidated Financial Statements since that date.

The aggregate purchase price was $100.3 million, consisting of $75.9 million of cash including transaction costs, and common shares valued at $24.4 million. The value of the 734,796 common shares issued was determined based on the weighted-average market price of the Company's shares over the two-day period before and after the terms of the acquisition were agreed to and announced.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition.

| | | |
|---|---|---|
| Fair value of assets acquired: | | |
| Cash and cash equivalents | $ | 12,035 |
| Deferred selling commissions | | 7,837 |
| Future income taxes | | 2,541 |
| Other assets | | 27,135 |
| Management contracts | | 17,147 |
| Distribution contracts | | 24,421 |
| | | 91,116 |
| Less fair value of liabilities assumed: | | |
| Deposits | | 20,564 |
| Other liabilities | | 50,050 |
| Long-term debt | | 23,044 |
| | | 93,658 |
| Fair value of net assets acquired | | (2,542) |
| Goodwill | | 102,814 |
| Total purchase consideration | $ | 100,272 |

Included in Other liabilities are accruals for contract termination costs of $26.7 million which were paid during the second quarter of 2004, and other restructuring costs of $5.5 million related to the acquisition.

# Quarterly Review

## CONSOLIDATED STATEMENTS OF INCOME

| For the years ended December 31 | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands except per share amounts)* | 4 | 3 | 2 | 1 | 4 | 3 | 2 | 1 |
| **Fee and net investment income** | | | | | | | | |
| Management | **$ 427,109** | **$ 420,516** | **$ 406,462** | **$ 390,650** | $ 383,190 | $ 371,686 | $ 371,701 | $ 365,080 |
| Administration | **78,029** | **74,481** | **75,396** | **79,485** | 71,588 | 74,228 | 75,768 | 78,028 |
| Distribution | **55,846** | **53,406** | **49,756** | **53,336** | 46,196 | 44,448 | 38,892 | 34,935 |
| Net investment income and other | **47,341** | **38,594** | **47,548** | **49,625** | 47,093 | 36,756 | 37,121 | 42,361 |
| Total fee and net investment income | **608,325** | **586,997** | **579,162** | **573,096** | 548,067 | 527,118 | 523,482 | 520,404 |
| **Operating expenses** | | | | | | | | |
| Commission expense | **189,499** | **183,491** | **177,865** | **175,616** | 163,777 | 155,305 | 153,802 | 143,822 |
| Non-commission expense | **141,202** | **135,611** | **135,727** | **142,786** | 154,210 | 126,553 | 126,692 | 136,801 |
| Interest expense | **22,749** | **22,746** | **22,557** | **22,373** | 24,100 | 23,889 | 23,707 | 23,897 |
| Total operating expenses | **353,450** | **341,848** | **336,149** | **340,775** | 342,087 | 305,747 | 304,201 | 304,520 |
| Income before undernoted | **254,875** | **245,149** | **243,013** | **232,321** | 205,980 | 221,371 | 219,281 | 215,884 |
| Income taxes | **77,467** | **68,365** | **74,498** | **71,170** | 63,470 | 66,969 | 66,535 | 67,995 |
| Income before non-controlling interest | **177,408** | **176,784** | **168,515** | **161,151** | 142,510 | 154,402 | 152,746 | 147,889 |
| Non-controlling interest | **162** | **229** | **584** | **456** | 420 | 571 | 160 | – |
| **Net income** | | | | | | | | |
| In accordance with GAAP | **$ 177,246** | **$ 176,555** | **$ 167,931** | **$ 160,695** | $ 142,090 | $ 153,831 | $ 152,586 | $ 147,889 |
| **Reconciliation of non-GAAP financial measures**[1] | | | | | | | | |
| **Adjusted net income (non-GAAP)** | **$ 177,246** | **$ 176,555** | **$ 167,931** | **$ 160,695** | $ 161,271 | $ 153,831 | $ 152,586 | $ 147,889 |
| Unitholder compensation (net of tax) | – | – | – | – | (19,181) | – | – | – |
| **Net income (GAAP)** | **$ 177,246** | **$ 176,555** | **$ 167,931** | **$ 160,695** | $ 142,090 | $ 153,831 | $ 152,586 | $ 147,889 |
| **Diluted earnings per share** *(¢)* | | | | | | | | |
| In accordance with GAAP | **66** | **66** | **63** | **60** | 53 | 58 | 57 | 56 |
| Adjusted earnings per share | **66** | **66** | **63** | **60** | 61 | 58 | 57 | 56 |
| Dividends per share *(¢)* | **34.5** | **34.5** | **32.25** | **32.25** | 30.0 | 30.0 | 27.5 | 27.5 |

## STATISTICAL DATA *($ millions)*

| | 2005 Q4 | 2005 Q3 | 2005 Q2 | 2005 Q1 | 2004 Q4 | 2004 Q3 | 2004 Q2 | 2004 Q1 |
|---|---|---|---|---|---|---|---|---|
| **Mutual funds** | | | | | | | | |
| **Investors Group** | | | | | | | | |
| Sales | **$ 1,377** | **$ 1,205** | **$ 1,254** | **$ 1,652** | $ 1,102 | $ 995 | $ 1,064 | $ 1,561 |
| Redemption rate *(%)* – total | **10.0** | **10.4** | **10.5** | **10.5** | 10.6 | 10.7 | 11.2 | 12.0 |
| – long-term funds | **8.7** | **9.1** | **9.1** | **9.1** | 9.1 | 9.2 | 9.6 | 10.2 |
| Net sales (redemptions) | **254** | **56** | **40** | **428** | (46) | (51) | (71) | 386 |
| Assets under management | **50,701** | **49,045** | **46,922** | **45,508** | 44,510 | 42,296 | 42,536 | 42,675 |
| **Mackenzie Financial Corporation** | | | | | | | | |
| Sales | **2,183** | **1,721** | **1,894** | **2,277** | 1,694 | 1,438 | 1,633 | 2,021 |
| Redemption rate *(%)* – total | **17.6** | **17.8** | **17.6** | **17.2** | 16.9 | 16.9 | 16.9 | 17.2 |
| – long-term funds | **14.8** | **15.1** | **14.7** | **14.3** | 13.8 | 13.7 | 13.5 | 13.2 |
| Net sales | **512** | **110** | **207** | **346** | 123 | 110 | 219 | 343 |
| Assets under management | **41,592** | **40,215** | **38,949** | **38,189** | 37,298 | 34,979 | 35,847 | 35,383 |
| **Investment Planning Counsel**[2] | | | | | | | | |
| Sales | **90** | **91** | **94** | **132** | 98 | 90 | 71 | – |
| Redemption rate *(%)* – total | **10.2** | **10.9** | **10.7** | **10.8** | 10.5 | 9.5 | 9.6 | – |
| – long-term funds | **9.7** | **10.3** | **9.9** | **9.6** | 9.5 | 8.3 | 8.2 | – |
| Net sales | **51** | **48** | **55** | **83** | 52 | 60 | 49 | – |
| Assets under management | **1,858** | **1,772** | **1,679** | **1,580** | 1,497 | 1,359 | 1,326 | – |
| **Combined assets under management**[3] | **94,116** | **90,996** | **87,514** | **85,245** | 83,273 | 78,605 | 79,680 | 78,058 |
| **Insurance in force** *(face amount)* | **37,024** | **36,368** | **36,029** | **36,411** | 35,897 | 35,217 | 34,513 | 33,012 |
| **Securities operations assets under administration** | **7,320** | **7,476** | **7,615** | **7,405** | 7,107 | 6,618 | 6,626 | 5,925 |
| **Mortgages serviced** | **6,003** | **5,909** | **5,874** | **5,911** | 6,010 | 6,102 | 6,217 | 6,327 |
| **Deposits and certificates** | **693** | **685** | **701** | **741** | 711 | 669 | 713 | 742 |
| **Corporate assets** | **6,807** | **6,705** | **6,591** | **6,548** | 6,473 | 6,548 | 6,456 | 6,338 |
| **Consultants – Investors Group** | **3,668** | **3,560** | **3,537** | **3,503** | 3,496 | 3,391 | 3,207 | 3,219 |

*(1) Refer to page 23 of the MD&A for an explanation of the Company's use of non-GAAP financial measures.*
*(2) From the date of acquisition.*
*(3) Adjusted for inter-segment assets.*

# Ten Year Review

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| For the years ended December 31<br>($ thousands, except per share amounts) | 2005 | 2004 | 2003 | 2002 | 2001 | 5 YEAR %<br>CAGR(1) | 2000 | 1999 | 1998 | 1997 | 1996 | 10 YEAR %<br>CAGR(1) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fee income | **2,164,472** | 1,955,740 | 1,714,373 | 1,813,205 | 1,626,934 | *15.0* | 1,075,504 | 939,656 | 864,445 | 730,819 | 544,375 | *17.4* |
| Net investment income | **183,108** | 163,331 | 159,808 | 126,510 | 133,515 | *8.5* | 121,604 | 86,782 | 73,730 | 71,031 | 69,101 | *13.0* |
| | **2,347,580** | 2,119,071 | 1,874,181 | 1,939,715 | 1,760,449 | *14.4* | 1,197,108 | 1,026,438 | 938,175 | 801,850 | 613,476 | *17.0* |
| Operating expenses | **1,372,222** | 1,256,555 | 1,050,722 | 1,133,066 | 1,176,427 | *14.7* | 690,398 | 612,300 | 614,004 | 552,454 | 434,643 | *15.0* |
| | **975,358** | 862,516 | 823,459 | 806,649 | 584,022 | *14.0* | 506,710 | 414,138 | 324,171 | 249,396 | 178,833 | *20.7* |
| Dilution gain | **–** | – | 14,820 | – | – | – | – | – | – | – | – | – |
| Income before undernoted | **975,358** | 862,516 | 838,279 | 806,649 | 584,022 | *14.0* | 506,710 | 414,138 | 324,171 | 249,396 | 178,833 | *20.7* |
| Income taxes | **291,500** | 264,969 | 299,198 | 317,401 | 252,474 | *5.6* | 222,418 | 178,525 | 135,827 | 101,884 | 61,331 | *19.0* |
| | **683,858** | 597,547 | 539,081 | 489,248 | 331,548 | *19.2* | 284,292 | 235,613 | 188,344 | 147,512 | 117,502 | *21.5* |
| Goodwill amortization, net of tax | **–** | – | – | – | 71,969 | – | 267 | – | – | – | – | – |
| | **683,858** | 597,547 | 539,081 | 489,248 | 259,579 | *19.2* | 284,025 | 235,613 | 188,344 | 147,512 | 117,502 | *21.5* |
| Discontinued operations | **–** | – | – | 1,811 | 116 | – | – | – | – | – | – | |
| | **683,858** | 597,547 | 539,081 | 491,059 | 259,695 | *19.2* | 284,025 | 235,613 | 188,344 | 147,512 | 117,502 | *21.5* |
| Non-controlling interest | **1,431** | 1,151 | – | – | – | – | – | – | – | – | – | – |
| **Net income** | | | | | | | | | | | | |
| In accordance with GAAP | **682,427** | 596,396 | 539,081 | 491,059 | 259,695 | *19.2* | 284,025 | 235,613 | 188,344 | 147,512 | 117,502 | *21.5* |
| Adjusted net income(2) | **682,427** | 615,577 | 533,563 | 491,059 | 392,637 | *19.1* | 284,292 | 235,613 | 188,344 | 147,512 | 117,502 | *21.5* |
| **Diluted earnings per share** *($)* | | | | | | | | | | | | |
| In accordance with GAAP | **2.56** | 2.24 | 2.03 | 1.85 | 1.05 | *13.8* | 1.35 | 1.12 | 0.89 | 0.70 | 0.56 | *18.7* |
| Adjusted earnings per share(2) | **2.56** | 2.31 | 2.01 | 1.85 | 1.58 | *13.7* | 1.35 | 1.12 | 0.89 | 0.70 | 0.56 | *18.6* |
| **Dividends per share** *(¢)* | **134** | 115 | 99 | 86 | 73 | *17.0* | 61 | 49 | 38 | 30 | 25 | *21.9* |
| **Return on average common equity (ROE)** *(%)* | | | | | | | | | | | | |
| In accordance with GAAP | **20.0** | 19.1 | 19.1 | 19.2 | 16.7 | – | 28.1 | 26.4 | 23.8 | 21.1 | 18.8 | – |
| Adjusted ROE(2) | **20.0** | 19.8 | 18.9 | 19.2 | 19.6 | – | 28.1 | 26.4 | 23.8 | 21.1 | 18.8 | – |
| **Average shares outstanding** *(thousands)* | | | | | | | | | | | | |
| – Basic | **264,573** | 264,431 | 263,915 | 263,487 | 247,093 | – | 210,012 | 210,854 | 211,396 | 211,383 | 211,370 | – |
| – Diluted | **266,609** | 266,010 | 265,174 | 264,873 | 247,932 | – | 210,870 | 210,854 | 211,396 | 211,383 | 211,370 | – |
| **Share price** *(closing $)* | **46.12** | 36.64 | 31.05 | 26.75 | 25.50 | *12.2* | 25.95 | 20.60 | 26.40 | 22.60 | 13.50 | *18.7* |

*Includes Mackenzie from date of acquisition (April 20, 2001). Includes Investment Planning Counsel from date of acquisition (May 10, 2004).*
*(1) Compound annual growth rate.*
*(2) Non-GAAP Financial Measures – Items denoted as being excluded refer to:*
*2004 – Unitholder compensation as discussed on page 23 of the MD&A*
*2003 – Dilution gain, restructuring reversal and non-cash income tax change as discussed on page 23 of the MD&A*
*2001 and 2000 – Goodwill amortization and Mackenzie restructuring costs*

# Ten Year Review

## STATISTICAL INFORMATION

| For the years ended December 31 ($ millions) | 2005 | 2004 | 2003 | 2002 | 2001 | 5 YEAR % CAGR[1] | 2000 | 1999 | 1998 | 1997 | 1996 | 10 YEAR % CAGR[1] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Mutual funds** | | | | | | | | | | | | |
| **Investors Group** | | | | | | | | | | | | |
| Sales | **5,488** | 4,722 | 4,021 | 4,916 | 6,027 | *(4.9)* | 7,053 | 5,915 | 6,296 | 6,513 | 5,031 | *4.7* |
| Redemption rates *(%)* | | | | | | | | | | | | |
| – total | **10.0** | 10.6 | 12.8 | 12.6 | 11.6 | – | 14.0 | 11.9 | 10.0 | 9.9 | 11.6 | – |
| – long-term funds | **8.7** | 9.1 | 10.7 | 10.2 | 9.6 | – | 11.7 | 9.8 | 8.3 | 8.2 | 9.5 | – |
| Net sales (redemptions) | **778** | 218 | (839) | (109) | 1,031 | *N/M* | 976 | 1,370 | 2,887 | 3,522 | 2,361 | *N/M* |
| Assets under management | **50,701** | 44,510 | 40,904 | 37,588 | 41,644 | *2.6* | 44,498 | 40,650 | 36,064 | 32,248 | 25,912 | *9.6* |
| **Mackenzie**[2] | | | | | | | | | | | | |
| Sales | **8,075** | 6,786 | 5,282 | 5,998 | 3,454 | – | – | – | – | – | – | – |
| Redemption rates *(%)* | | | | | | | | | | | | |
| – total | **17.6** | 16.9 | 17.3 | 17.6 | 16.7 | – | – | – | – | – | – | – |
| – long-term funds | **14.8** | 13.8 | 13.0 | 11.9 | 11.6 | – | – | – | – | – | – | – |
| Net sales (redemptions) | **1,175** | 795 | (69) | 288 | 24 | – | – | – | – | – | – | – |
| Assets under management | **41,592** | 37,298 | 33,770 | 30,860 | 33,400 | – | – | – | – | – | – | – |
| **Investment Planning Counsel** | | | | | | | | | | | | |
| Sales | **407** | 259 | – | – | – | – | – | – | – | – | – | – |
| Redemption rates *(%)* | | | | | | | | | | | | |
| – total | **10.2** | 10.5 | – | – | – | – | – | – | – | – | – | – |
| – long-term funds | **9.7** | 9.5 | – | – | – | – | – | – | – | – | – | – |
| Net sales (redemptions) | **237** | 161 | – | – | – | – | – | – | – | – | – | – |
| Assets under management | **1,858** | 1,497 | – | – | – | – | – | – | – | – | – | – |
| **Combined mutual fund assets under management**[3] | **94,116** | 83,273 | 74,674 | 68,448 | 75,044 | *16.2* | 44,498 | 40,650 | 36,064 | 32,248 | 25,912 | *16.6* |
| **Insurance in force** *(face amount)* | **37,024** | 35,897 | 31,307 | 27,546 | 24,374 | *12.1* | 20,876 | 18,086 | 14,548 | 12,279 | 10,327 | *14.9* |
| **Securities operations assets under administration** | **7,320** | 7,107 | 5,785 | 4,938 | 4,104 | *22.6* | 2,646 | 1,471 | 590 | 316 | 128 | – |
| **Mortgages serviced** | **6,003** | 6,010 | 6,425 | 6,938 | 7,659 | *(3.4)* | 7,147 | 7,569 | 8,144 | 4,157 | 4,145 | *4.3* |
| **Deposits and certificates** | **693** | 711 | 729 | 709 | 671 | *25.6* | 219 | 307 | 372 | 488 | 986 | *(4.0)* |
| **Corporate Assets** | **6,807** | 6,473 | 6,292 | 5,987 | 6,122 | *27.9* | 1,985 | 1,812 | 1,799 | 1,765 | 1,959 | *13.6* |
| **Consultants – Investors Group** | **3,668** | 3,496 | 3,223 | 3,324 | 3,409 | *1.0* | 3,483 | 3,626 | 3,774 | 3,507 | 3,187 | *1.9* |

*Includes Mackenzie from date of acquisition (April 20, 2001). Includes Investment Planning Counsel from date of acquisition (May 10, 2004).*
*(1) Compound annual growth rate.*
*(2) For Canadian mutual fund operations only.*
*(3) Adjusted for inter-segment assets.*

# Board of Directors and Executive Officers

## Board of Directors

**Robert Gratton**
*Chairman of the Board*
IGM Financial Inc.

**James W. Burns, O.C.** [1,3]
*Director Emeritus*
Power Corporation of Canada

**André Desmarais, O.C.** [1,4,5]
*President and Co-Chief Executive Officer*
Power Corporation of Canada

**Paul Desmarais, Jr., O.C.** [1,4,5]
*Chairman and Co-Chief Executive Officer*
Power Corporation of Canada

**Robert Gratton** [1,4,5]
*Chairman of the Board*
IGM Financial Inc.
*Chairman of the Board*
Power Financial Corporation

**Daniel Johnson** [1,4]
*Counsel*
McCarthy Tétrault

**The Right Honourable**
**Donald F. Mazankowski, O.C., P.C.** [1,2,4]
*Company Director*

**John S. McCallum** [2,3]
*Professor of Finance*
University of Manitoba

**Raymond L. McFeetors**
*President and Chief Executive Officer*
Great-West Lifeco Inc.

**R. Jeffrey Orr** [1,4,5]
*President and Chief Executive Officer*
Power Financial Corporation

**Roy W. Piper** [2,3,5]
*Self-Employed Farmer*

**Michel Plessis-Bélair, F.C.A.** [1,4]
*Vice-Chairman and Chief Financial Officer*
Power Corporation of Canada

**Susan Sherk** [1,3,5]
*Senior Human Environmental Associate*
AMEC plc.

**Charles R. Sims** [1]
*Co-President and Chief Executive Officer*
IGM Financial Inc.
*President and Chief Executive Officer*
Mackenzie Financial Corporation

**Murray J. Taylor** [1]
*Co-President and Chief Executive Officer*
IGM Financial Inc.
*President and Chief Executive Officer*
Investors Group Inc.

**Gérard Veilleux, O.C., D.U.** [3]
*President*
Power Communications Inc.

*Director Emeritus*
**The Honourable**
**Paul Desmarais, P.C., C.C.**

## Executive Officers

**Charles R. Sims**
*Co-President and Chief Executive Officer*

**Murray J. Taylor**
*Co-President and Chief Executive Officer*

**Gregory D. Tretiak**
*Executive Vice-President and Chief Financial Officer*

**W. Sian Burgess**
*Senior Vice-President, General Counsel and Secretary*

**Committees**

1. Executive Committee
   Chair, R. Jeffrey Orr
2. Audit Committee
   Chair, The Right Honourable Donald F. Mazankowski, O.C., P.C.
3. Public Policy Committee
   Chair, Susan Sherk
4. Investment Committee
   Chair, R. Jeffrey Orr
5. Compensation Committee
   Chair, R. Jeffrey Orr

# Shareholder Information

**Head Office**
447 Portage Avenue
Winnipeg, Manitoba
R3C 3B6
Telephone: 204 943 0361
Fax: 204 947 1659

**Auditors**
**Deloitte & Touche LLP**

**Transfer Agent and Registrar**
Computershare Trust
Company of Canada

Telephone: 800 564 6253
service@computershare.com
Fax: 888 453 0330

600, 530-8th Avenue S.W.
Calgary, Alberta T2P 3S8

Suite 2008, Purdy's Wharf Tower II
1969 Upper Water Street
Halifax, Nova Scotia B3J 3R7

1500 University Street, 7th Floor
Montreal, Quebec H3A 3S8

100 University Avenue,
11th Floor
Toronto, Ontario M5J 2Y1

510 Burrard Street, 2nd Floor
Vancouver, British Columbia
V6C 3B9

1190-201 Portage Avenue
Winnipeg, Manitoba
R3B 3K6

**Stock Exchange Listing**
**Toronto Stock Exchange**
Shares of IGM Financial Inc. are listed on the Toronto Stock Exchange under the following listings:
Common Shares: IGM
First Preferred Shares, Series A:
IGM.PR.A

**Analyst Contact**
For additional financial information about the Company, please contact:
**Gregory D. Tretiak**,
Executive Vice-President and
Chief Financial Officer
Telephone: 204 956 8748
Fax: 204 956 1446
greg.tretiak@investorsgroup.com

**Shareholder Information**
For additional information about the Company, please contact:
**Donna L. Janovcik**,
Associate Corporate Secretary
Telephone: 204 956 8532
Fax: 204 949 9594
corpsec@investorsgroup.com

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire de la Société financière IGM Inc.,
447 Portage Avenue,
Winnipeg (Manitoba) R3C 3B6

**Annual Meeting**
The Annual Meeting of IGM Financial Inc. will be held at Roy Thomson Hall, 60 Simcoe Street, Toronto, Canada on Friday, May 5, 2006 at 11:00 a.m. EST.

**Websites**
Visit our websites at
**www.igmfinancial.com**
**www.investorsgroup.com**
**www.mackenziefinancial.com**
**www.ipcc.ca**

*IGM Financial Inc. is a member of the Power Financial Corporation group of companies.*

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